Doing Business in Mongolia 2020

A reference guide for entering the Mongolian market
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Foreword

Mongolia is a landlocked country in north-central Asia bordered by China and Russia. The country is known for its vast, rugged expanses and nomadic culture. Mongolia has played a significant role in shaping today’s world. The country is a vibrant democracy and has witnessed remarkable economic growth by trebling its gross domestic product per capita in real terms over the last 30 years. With a very young and highly literate population, and vast natural resources, Mongolia promises tremendous economic growth potential. Through this publication, we welcome the opportunity to share some pertinent information about investing and doing business in Mongolia.

This publication has been prepared for the assistance of those interested in doing business in Mongolia and does not cover exhaustively the all subjects it treats and is intended to answer some of the important, broad questions that may arise. When specific questions arise in practice, it will often be necessary to refer to the laws, regulations and decisions of the country and to obtain appropriate accounting and legal advice.

If you need additional information on doing business in Mongolia, please do not hesitate to contact us in our office in Ulaanbaatar or through your nearest PwC office.

PwC has had a decade-long presence in Mongolia and significant experience in providing business advisory, tax and assurance services through our multi-disciplinary teams and remains at your service to to assist your organisation to achieve its business objectives.

Shaukat Tapia
Country Managing Partner
Office location in Mongolia
Overview of Mongolia

Considerations for the investors:

- Mongolia ranks in the top 20 in terms of land area per capita with vibrant democracy.
- The country is rich in agricultural and natural resources.
- Located next to China, the world's largest consumer of copper, steel, coal and many other natural resources.
- Member of WTO.
- Emerging market with a growing population and economy.
General information

Facts and figures

Mongolia is a landlocked country in East and Central Asia. It borders Russia to the north and the People's Republic of China to the south, east and west. Mongolia is the 19th largest and the most sparsely populated independent country in the world.

Mongolia is a highland country with average elevation of about 1,580 m (5,180 ft). The highest point, the Khuiten Peak in the western Mongolia, is 4,374 m (14,350 ft) above sea level while the lowest point is at 518 m (1,699 ft) in the eastern Mongolian plain.

The geography of Mongolia is varied with the Gobi Desert to the south and with cold and mountainous regions to the north and west. Much of Mongolia consists of steppes. Ulaanbaatar has the lowest average temperature of any national capital in the world. It has an extreme continental climate with long, cold winters and short summers, during which most of its annual precipitation falls.

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### MONGOLIA

- **1,564,116** square kilometers
- **21** Provinces
- **GDP per capita:** USD 4,104¹
- **Official language:** Mongolian
- **Population:** 3,325,806²
- **Literacy rate:** 98.4%
- **Employment rate:** 54.2%³
- **Local currency:** Togrog (MNT)
- **Inflation rate:** 6.4%⁴
- **Average wage:** MNT 1,124,300

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¹As of 2018, UN data
²As of 2020 Q2. nso.mn ., National Statistic Office of Mongolia
³As of 2019, nso.mn ., National Statistic Office of Mongolia
⁴As of 2020 Q2, nso.mn ., National Statistic Office of Mongolia
Mongolia’s economic growth accelerated sharply at 1.2% in 2016 to 5.8% in 2019 as reported by the National Statistics Office of Mongolia. However, the growth rate is projected to taper off to 5.0% by 2024 according to IMF projections. Mongolia, being highly dependent on its southern neighbor’s economic condition, exports roughly 88% of its produced goods and services to China.

Considering above, the Government of Mongolia is taking actions to diversify exports to other countries with the adoption of new policies and regulatory changes.

Recent economic highlights

• Due to impact of the COVID-19 crisis, Mongolia’s economy faces more uncertainty and downward pressures with its heavy exposure to China.

• Mongolia’s copper sector may see strong production growth over the next several years. This granted an aggressive ramp-up of major mining projects, such as the second phase expansion at Oyu Tolgoi which takes place to boost the investment activity.

• Deteriorating economic conditions and reversal in aggressive expansion of fiscal spending could put pressure on the Central Bank (Bank of Mongolia) to hike policy rates.

Key drivers of the economic growth in 2019:

- **Favorable external environment** – increased exports to China and rising commodity prices.

- **FDI increase** - mostly due to increase in investment in second phase of Oyu Tolgoi mining project.
Mongolia has been a member of the World Trade Organization (WTO) since 1997 and applies MFN tariffs for WTO member countries.

Mongolia and Japan signed Japan-Mongolia Economic Partnership Agreement (EPA) in 2015 that entered into force on 7 June 2016. The EPA contains 11 chapters covering areas of trade in goods and services, customs procedures and trade facilitation, electronic commerce, investment protection, movement of persons, competition, protection of intellectual property, dispute resolution and the improvement of the business environment.


As of current, Mongolia concluded tax treaties with 29 countries to avoid double taxation.
Foreign trade

China remains the top country in terms of export of goods for Mongolia (USD 6,772.78 million), making up 89.89% of the total export of physical goods as of 2019 Year end. Placed at second, United Kingdom is the destination that makes about 3.82% of total exports, and Singapore being third with 2.03% share of exports.

In the case for physical goods import, 26.73% of goods imported in 2019 are from China (USD 2,036.82 million). The next country in terms of imported goods is the Russian Federation, taking 22.70% of total imported goods. Japan make up 7.68% of total imports as of 2019 Year end. (Source: Mongolian Customs Database, 2019).

According to the Mongolian Customs Database, during 2019, majority of total trade turnover comprised of mineral/mining products (84% of total exports; 18% of total imports). Further breakdown of exported mineral products is presented in the following table.

<table>
<thead>
<tr>
<th>Export mineral products</th>
<th>Amount in mln USD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Coal</td>
<td>3,074.38</td>
</tr>
<tr>
<td>Copper concentrate</td>
<td>1,795.87</td>
</tr>
<tr>
<td>Iron ore</td>
<td>576.41</td>
</tr>
<tr>
<td>Crude oil</td>
<td>366.67</td>
</tr>
<tr>
<td>Fluorite</td>
<td>205.54</td>
</tr>
<tr>
<td>Zinc ore concentrate</td>
<td>189.00</td>
</tr>
<tr>
<td>Molybdenum ore concentrate</td>
<td>49.01</td>
</tr>
</tbody>
</table>

Meanwhile, petroleum products make up 85% of all imported mineral products in 2019, amounting USD 1,165.8 million for 1,844.5 thousand tons.

Oil and related products

<table>
<thead>
<tr>
<th>Petrol (gasoline)</th>
<th>Diesel fuel</th>
<th>Other oil products</th>
</tr>
</thead>
<tbody>
<tr>
<td>29%</td>
<td>58%</td>
<td>13%</td>
</tr>
</tbody>
</table>
Mining in Mongolia

Mongolia is rich in mineral resources and is among 29 resource rich developing countries as identified by the IMF. Coal, copper and gold are the principle reserves mined in Mongolia.

Mining sector growth will continue to accelerate in line with improving commodity prices, foreign mining investment and Mongolia’s proximity to China, a major global consumer of mining products.

One of the biggest commodities Mongolia produces is Coal. Further development regarding coal is expected to be mostly for coking coal projects, given the relatively stronger price outlook compared to thermal coal.

The following are the top 5 commodities produced in Mongolia as of the end of 2019.

(Source: Mongolian customs database, 2020)
**Strategic Deposits**

Under the Law on Minerals, mineral resources naturally occurring on and under the earth’s surface in Mongolia are the property of the State. Therefore, the state, as the owner, holds the right to grant exploration and mining rights.

The Parliament has a right to declare a mineral resource as a mineral deposit of strategic importance (the “Strategic Deposits”) if a deposit may have a potential impact on national security, national or regional economic and social development, is producing or has the potential to produce more than 5% of the total annual gross domestic product.

The State may participate up to 50% jointly with private entities in the exploitation of a Strategic Deposits; where the State can prove that it has conducted State funded exploration which was used to determine the proven reserves. If the relevant exploration of a mineral deposits of strategic importance was privately financed, the State may participate up to 34% equity interest. The percentage of the State participation shall be determined by a negotiation and agreement on exploitation of the deposit considering the amount of investment made by the State.

Currently there are sixteen (16) deposits that have been classified as “Strategic Deposits” (shown in the table below). Also, there are additional thirty-nine (39) deposits identified and under consideration for classification as “Strategic Deposits”.

**List of Strategic Deposits**

(Source: legalinfo.mn)

<table>
<thead>
<tr>
<th>Deposit name</th>
<th>Type of Mineral</th>
<th>Deposit name</th>
<th>Type of Mineral</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tavan Tolgoi</td>
<td>Fossil coal</td>
<td>Oyu Tolgoi</td>
<td>Copper, molybdenum</td>
</tr>
<tr>
<td>Nariin Sukhait</td>
<td>Coal</td>
<td>Tsagaan suvarga</td>
<td>Copper, molybdenum</td>
</tr>
<tr>
<td>Baganuur</td>
<td>Brown coal</td>
<td>Erdenet</td>
<td>Copper, molybdenum</td>
</tr>
<tr>
<td>Shivee Ovoo</td>
<td>Brown coal</td>
<td>Burenkhaan</td>
<td>Phosphor</td>
</tr>
<tr>
<td>Mardai</td>
<td>Uranium</td>
<td>Boroo</td>
<td>Gold</td>
</tr>
<tr>
<td>Dornod</td>
<td>Uranium</td>
<td>Tomortein Ovoo</td>
<td>Zinc, lead</td>
</tr>
<tr>
<td>Gurvan bulag</td>
<td>Uranium</td>
<td>Asgat</td>
<td>Silver</td>
</tr>
<tr>
<td>Tomortei</td>
<td>Iron</td>
<td>Gatsuurt</td>
<td>Gold</td>
</tr>
</tbody>
</table>
Oyu Tolgoi

Largest mining project in Mongolia

It is a combined open pit and underground copper and gold mining project located in the southern part of Mongolia (Umnugovi aimag). With majority ownership by a global mining group Rio Tinto Plc., Oyu Tolgoi (OT) is in the process of finalizing the development of its underground mine, which comprises 80% of the total mine value.

The underground mine is expected to achieve sustainable production sometime between May 2022 and June 2023.

When Oyu Tolgoi is fully operational, it is expected that Mongolia GDP will grow by approximately 35 percent*.

Oyu Tolgoi’s in-country spending passed USD 10 billion as of end of Q4, 2019*.

Oyu Tolgoi produced 146,346 tonnes of copper in concentrate and 241,840 ounces of gold in concentrate in 2019. The company paid USD 321 million in taxes to the country’s budget in 2019*.

As of the end of 2019, over 93% of Oyu Tolgoi’s workforce of 13,800 were Mongolian nationals with more than half working on the development of the underground mine*

* attributable to www.ot.mn
Mongolia has a vast amount of renewable energy sources. According to International Renewable Energy Agency, a huge renewable energy potential in Mongolia can be used to bolster energy security, reduce pollution, meet global climate commitments and develop regional electricity exports. Electricity output from Mongolia's solar and wind resources alone could reach 15,000 terawatt-hours annually.

Mongolia's energy production reached a volume of 6,624.8 million, 93% of which was produced by coal-fired thermal power plants while the rest was produced by renewable energy resources in 2018. For the reduction of the country's dependence on coal-fired energy supply and contribute to energy security, renewable energy is a very promising area.

Energy Regulatory Commission, the main regulatory body in the energy sector, issued licenses for construction of renewable energy buildings to 29 companies in solar energy with 727 MW, 5 companies in wind energy with 502.4 MW and 5 companies in hydropower, biomass and other alternative renewable energy resources with 299.4 MW in 2018. If these license holders complete the construction and start supplying to the transmission grid before 2020, the renewable energy capacity will exceed the country's targeted renewable energy capacity.

### Renewable energy in Mongolia

**Government policy**
The State Energy Policy approved in 2015 targets the national renewable energy capacity to 20% of the total installed energy capacity by 2020 and 30% by 2030.

**Geographic advantage**
Suitable geographic location for wind and solar energy; because; i) wind power classification of Good-to-Excellent wind power resources are equivalent to 1,113,300 MW of wind electric ii) about 270-300 sunny days annually in most regions of Mongolia. Annual average amount of solar energy possibility is 1,400 kWh/m² with solar intensity of 4.3-4.7 kWh/m² per day.

**Feed-in tariffs**
Feed-in tariff scheme introduced within the Law on Renewable Energy in 2007. Tariffs and other key terms of PPAs can be negotiated and signed with the National Dispatch Center. The feed-in tariff ranges for on-grid installations are i) Wind: up to USD 0.085/kWh, ii) Solar: up to USD 0.12/kWh and iii) hydropower up to 5 MW: USD 0.045-0.06/kWh
Rising digital trends

Based on the reports published by Communications Regulatory Commission, the latest number of mobile phone subscribers is approximately 4.4 mln, compared to latest census of 3.2 mln of Mongolians. The discrepancy is due to some people having 2 or 3 mobile subscriptions at the same time.

With the increase of users, the amount of data transferred over 3G and LTE has increased significantly over the last few years, with the total volume of transferred data amounting to approximately 68K Terabytes in 2019.

Network coverage and internet access

Most of the small towns and cities in Mongolia are connected to the internet through fiber optic cables. Coverage and maintenance of the fiber optic cable network is conducted by 3 major companies:


Banking and capital markets

Banking

Since 1991, Mongolia has had a two-tier banking system. The Bank of Mongolia (or Mongol Bank) is the central bank of Mongolia and represents the upper (first) tier of the banking system. Apart from that, Mongol Bank is responsible for holding and managing Mongolian official foreign exchange reserves as well as supervising overall financial stability and maintaining reliable and well-functioning payment systems. Mongol Bank also is responsible for the circulation of cash within Mongolia.

Within its main objective, the Mongol Bank promotes balanced and sustained development of the national economy, through maintaining the stability of money, financial markets and the banking system. The Mongol Bank is not guided by the aim of earning profit in performing its tasks.

Compared to the other sectors of Mongolian economy, the financial sector is relatively well developed. The total balance of assets in the system is USD 13 billion. The financial sector is fully dominated by banking sector representing over 86% of total assets, while other sectors, such as insurance, non-banking financial institutions, leasing companies, pension and investment funds are underdeveloped.

The share of top 5 commercial banks in total assets of the banking sector was 87% as of year-end of 2019. These commercial banks are all rated by the international rating agencies.

Market share of top 5 banks by total assets*

<table>
<thead>
<tr>
<th>No.</th>
<th>Bank</th>
<th>Total assets USD in billion/approx.</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Khan bank</td>
<td>3.7</td>
</tr>
<tr>
<td>2</td>
<td>Trade and Development bank</td>
<td>2.8</td>
</tr>
<tr>
<td>3</td>
<td>Golomt bank</td>
<td>2.5</td>
</tr>
<tr>
<td>4</td>
<td>Xac bank</td>
<td>1.1</td>
</tr>
<tr>
<td>5</td>
<td>State bank</td>
<td>1.1</td>
</tr>
</tbody>
</table>

*as quarter III of 2019

(Source: mba.mn. Banking sector review, 2019 Q3., Mongolian Bank Association)

The banking sector has been one of the attractive sectors after mining for foreign investors in recent years and has attracted considerable investor interest from Japan, the USA, Canada, Russia and other countries. Though most of the major banks are financed in part by foreign investors at present only few foreign banks have representative offices in Mongolia, for example ING Bank, Bank of China, ICBC, Sumitomo Mitsui Banking Corporation (SMBC) and Bank of Tokyo Mitsubishi.

The profitability of banks is higher compared to most advanced countries with higher interest margins, though it has been steadily declining since end of 2016 due to increased competition on banking market, decrease in policy rate and increasing non-performing loans resulting from deteriorating operating environment.
Capital markets

The Mongolian Stock Exchange (MSE), established in January 1991, is the sole stock exchange in Mongolia. There are currently around 198 companies listed on the MSE.

<table>
<thead>
<tr>
<th>Categories</th>
<th>No. of companies</th>
</tr>
</thead>
<tbody>
<tr>
<td>Category I*</td>
<td>14</td>
</tr>
<tr>
<td>Category II*</td>
<td>44</td>
</tr>
<tr>
<td>Category III*</td>
<td>140</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>198</strong></td>
</tr>
</tbody>
</table>

**Category I** – companies that have at least a market capitalization of MNT 10 billion, generate revenues of MNT 5 billion, or Net Income of MNT 1 billion.

**Category II** - companies that have at least a market capitalization of MNT 1 billion, generate revenues of MNT 100 million, and have at least 25% of shares offered to public.

**Category III** – companies that have offered shares through private placement, to sophisticated investors. Mainly, these are high risk project companies, small and medium enterprises (with primarily mining exploration and operation licenses).

As of now, there is no restriction on foreign ownership of shares, although in the uranium sector, for example, ownership must be approved by the Nuclear Energy Agency, which could in theory refuse the transfer of shares to a foreign entity.

On 21 Sep 2017, MSE became a member of the Sustainable Stock Exchange Initiative joining the global efforts to support responsible investment and sustainable business activities. For supporting sustainability, MSE amended its Listing Rules to provide listing criteria exemptions and waivers to companies seeking listing on the exchange and reduced initial listing fees by up to 20% for companies with activities supporting the UN Sustainable Development Goals.

The 2018 was a big year in terms of total value of raised capital on primary markets with approximately MNT 50.5 billion (USD 19 million) raised. In 2019, the number of IPOs on MSE dropped significantly, with only 1 offering during the year.
Insurance sector

Insurance businesses are regulated by the Law on Insurance. By this law, Financial Regulatory Commission of Mongolia (FRC) is responsible for regulating insurance companies through its adoption of regulations, issuing insurance licenses, as well as supervision of insurance companies operating within Mongolia. Also, legally, companies registered in Mongolia are not allowed to enter into insurance contract with insurance companies which have not obtained license from FRC.

Mongolian insurance market is at its early stage of development with very low insurance penetration. However, the sector has experienced fast growth in terms of total assets and premiums in recent years with 15% average annual growth.

At present, insurance sector consists of 18 insurance companies: 15 general insurance, 1 life insurance company and 2 reinsurance, 51 insurance broker firms, including 7 reinsurance broker, 26 insurance loss adjuster firms, 30 professional actuaries and 2,487 insurance agents all of whom are operating in Mongolia.

Majority of the insurance products offered by Mongolian insurance companies are property and liability insurance. As the size and financial strength of Mongolian insurance companies are limited, high risk and high value insurance policies are usually reinsured with international reinsurance companies.

The insurance sector is historically characterized by high profitability, which has increased since 2014 due to increase in economic growth and FDIs. The insurance sector has high potential for long-term growth due to currently low penetration and awareness of insurance products, expected growth of mining sector, implementation of large infrastructure projects and overall GDP growth, as well as expected increase in living standard of Mongolian population.
Starting a business

Consideration for the investors:

- A foreign investor may operate through the following corporate forms all of which should be registered with the Legal Entities Registration Office: a limited liability company, a representative office or a limited liability partnership.

- A limited liability company and a representative office are the most commonly used forms of legal entities by foreign investors in Mongolia.

- Business units like permanent establishments are not registered with the LERO. A permanent establishment should be registered with the tax authority only.

- The estimated minimum statutory cost of setting up a foreign invested limited liability company or a representative office in Mongolia may range between USD 270 – 400 (excluding a minimum compulsory share capital).

- Establishing of foreign company generally may take approximately 2 weeks from the submission of the complete documents.
Forms of business

Limited Liability Companies (LLCs)

LLC is the most commonly used form of legal entity. LLCs have a share capital divided into shares and the shareholders are not personally liable for the obligations of the company. LLCs are established via a charter/articles of association and a decision of its founders. It may be founded by one or more individuals or legal entities. LLC may engage in licensed activities upon obtaining the respective license. Accordingly, safeguards enabling respective controls are provided by laws, including rights of pre-emption in case of the sale of shares to non-shareholders, and a resolution of shareholders is required to transfer a share to a third party.

USD 100,000, per foreign investor must be paid in the company’s share capital, in case 25% or more total issued ordinary shares of a company is owned by a foreign entity or a foreign individual.

Certain fields of activity (e.g. banking, insurance companies, etc.) the laws may provide for higher share capital requirements.

Joint stock companies (JSCs)

A legal entity must be duly registered with the LERO as an LLC before being listed on the Mongolian Stock Exchange and becoming a joint stock company. Shares of an open joint stock companies are freely traded without regard to pre-emption rights of the shareholders. Shareholdings of joint stock companies are registered with the Mongolian Central Securities Depository once the company becomes a listed company.

Partnership

Partnership is not a commonly used structure except by law firms. Partnership can be established in the forms of a general partnership, limited partnership or limited liability partnership. General partnership: all partners are jointly and severally liable for the partnership obligations with the property contributed to the partnership and with their personal property; Limited partnership: at least one of the partners is entirely liable for partnership obligations to the extent of his contribution and personal property; Limited liability partnership (LLP): it can be established by only certain types of professional service providers such as lawyers. All partners in a LLP have limited liability from errors, omissions, negligence, incompetence or malpractice committed by other partners.

Representative offices

A representative office ("RO") of a legal entity does not have the status of a legal entity. RO itself cannot act as an independent legal entity and holds merely a representing function to act on behalf of the head office under the power of attorney provided by the latter. Therefore, RO’s activities in Mongolia are practically limited to few activities such as business development, representation of the head office interests, marketing, research, etc.

RO does not have charter capital. Accordingly, it is the head office that is legally responsible for liabilities to third parties. The foreign company is required to appoint a director/chief representative of the representative office and to register with the LERO.
Branches

Branch of legal entity is defined as a special unit located in place other than the legal entity's place of business, which performs full or partial functions of that legal entity, under the Civil Code. However, a branch of a foreign company is not practically possible. Mongolian laws do not provide procedure to register a branch of a foreign company.

Permanent establishment (PE)

PE is purely a tax concept and is not recognized as a legal establishment under the Mongolian laws. Recently, Mongolia adopted a tax reform which took effect from January 2020. Under the new law, a foreign entity that conducts business activities partially or wholly in Mongolia is considered PE:

- a place of management;
- a branch, workshop;
- a place of conducting a training, seminar and exhibition;
- a place of storage, trade and services;
- oil and natural gas well or a mine that extracts natural resource;
- a factory;
- other similar place, unit and an office.

Under the domestic legislation, the time threshold for establishing PE is 3 months for a construction PE and 183 days per 12 consecutive months for a service PE. Note that for the countries with which Mongolia has DTTs with, the DTT provisions will still prevail unless local legislation is more beneficial to the enterprise.

Liquidation and bankruptcy

A company can only be voluntarily liquidated if it is solvent and all creditors can be paid. In the event of the voluntary liquidation, company’s shareholders must issue a resolution and appoint a liquidation committee. The company must notify the Legal Entities Registration Office within 15 days from the date the resolution is approved. The process generally takes at least 12 months or more and requires a final tax inspection.
Free Trade Zone

Currently there are three free trade zones (“FTZ”) established: at the border towns of Altanbulag, Zamyn-Uud and Tsagaan Nuur.

FTZs have special regime in terms of tax, customs, transit, state registration, foreign currency, specialised inspection, visa and labour regulations. Companies registered in FTZs should commence their operations within a year after their registration, otherwise their registration would be suspended.

Due to lack of basic infrastructure at the FTZs and absence of secondary regulations for implementing the applicable laws, FTZs have been struggling to attract businesses.

Foreign labour force quota is not applicable for employing foreign individuals in the FTZs. Entities employing and providing income for foreign individuals are fully exempted from paying fee for employing foreign employees.

*Inter alia*, the following tax incentives are applied in FTZs.

<table>
<thead>
<tr>
<th>Sector/activities</th>
<th>Applicable tax incentives</th>
<th>Duration</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Retail, tourism, hotel management</td>
<td>Land fee exemption</td>
<td>first 5 years</td>
<td>100%</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Following 3 years</td>
<td>50%</td>
</tr>
<tr>
<td>Infrastructure and construction projects in areas of energy/heating source, pipeline network, clean water supply, wastewater sewage, road, railway, airport, basic communication line</td>
<td>Land fee exemption</td>
<td>First 10 years</td>
<td>100%</td>
</tr>
<tr>
<td>Buildings and constructions</td>
<td>Immovable property tax exemption</td>
<td></td>
<td>100%</td>
</tr>
<tr>
<td>USD 500 investment in projects such as energy/heating source, pipeline network, clean water supply, wastewater sewage, auto road, railway, airport, basic communication line</td>
<td>CIT credit</td>
<td>50% of the investment</td>
<td></td>
</tr>
<tr>
<td>USD 300 in buildings, warehouses, loading and unloading facilities, hotels, tourist camps and manufacturing of export and import-substituted goods</td>
<td>CIT credit</td>
<td>50% of the investment</td>
<td></td>
</tr>
<tr>
<td>Domestic goods transferred from customs territory to FTZs</td>
<td>Zero VAT</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Goods and services produced/provided and sold in the FTZs by the persons registered in the FTZs</td>
<td>Not subject to VAT</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Investment Law

The Investment Law (2013) aims to protect the legitimate rights and interests of investors within the territory of Mongolia, to establish common legal guarantee for investment, to support investment, to stabilize tax environment, to determine the powers of the state organizations, and to set the rights and obligations of the investor and regulate other relations concerning investments. The law applies to both domestic and foreign investors.

Under the Investment Law, if a foreign state-owned entity intends to acquire 33% or more common shares of a Mongolian registered entity operating in mining, banking, finance or media and communication sector, it should obtain a permit from a government agency responsible for investment matters.

**Tax stabilization certificate**

Investment Law also introduced a tax stabilization certificate to make more stable tax environment in Mongolia, which if obtained, stabilizes applicable rates of the taxes such as Corporate Income Tax (CIT), Customs duties, Value Added Tax (VAT), Mineral royalty tax (excluding the mining products produced from derivative deposits).

The holder of a stabilization certificate will stabilize tax rates for period from 5 to 18 years depending on amount of investment, industry of investment and geographic location of investment in Mongolia (Please see Appendix A for details). During the validity of the certificate, investors also have the right to apply effective tax rates provided in general legislation if such rates are more beneficial to them.

Investors in tobacco and alcohol related activities cannot benefit from tax stabilization.

If certain conditions are met, the stabilization certificate period may be extended by 1.5 times for some projects. The conditions are:

- Produce products that substitute for imported products or export-oriented which are important for the long-term social and economic development of Mongolia; that will require investment of more than MNT 500 billion;
- Have development period of more than 3 years; and
- Produce value-added, processed products for export.

In addition to above, the law provides for incentives with respect to customs duty (exemption) and VAT (zero rate) on imported equipment and machinery during construction period of specific projects, as below:

- Construction of factory for processing construction materials, petroleum, agricultural products and products intended for export;
- Nano, bio innovation technology plant construction;
- Construction of power plants and railroads.

Those investors who made an investment of MNT 500 billion or a stabilization certificate was granted for an investment project of more than MNT 500 billion, are entitled to enter into the investment agreement with the Government.

Unless otherwise stated within the applicable laws, the investment agreement may reflect the conditions to provide legal guarantees to the investor stabilize the tax environment and render coordination and financial support as provided within the Investment Law.

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Investment incentives provided by the Investment Law are divided into tax and non-tax incentives:

- **Tax incentives** include exemptions from tax, tax credits, possibility to use accelerated depreciation for tax purposes, tax loss carry-forward and deduction of employee training costs from taxable income.
- **Non-tax incentives** include favorable conditions such as longer period to possess land, incentives for conducting operations in free trade zones and technology and science parks, increase of quota of foreign employees, simplified visa arrangements etc.
Accounting

According to the Law on Accounting (2015), annual accounting and reporting period follows the calendar year. Entities should file their annual financial statements with the relevant state authorities by 10 February of the following year. In case of the consolidated financial statements, the submission deadline of the annual financial statements is 1 March of the following year. Large business entities, medium and small sized business entities and public institutions are required to apply International Financial Reporting Standards (IFRS). Specifically, joint stock companies and companies operating in regulated sectors such as banking and non-banking financial sector, mining and petroleum companies, companies operating in the energy sector, and state and local government-owned legal entities must comply with IFRS. Small and medium-sized business entities, as defined in the Law on Small and Medium Sized Enterprises, must comply with IFRS for small and medium sized entities (‘IFRS for SMEs’), and public institutions subject to the Law on Budget must comply with international public-sector accounting standards (‘IPSAS’).

The Law on Accounting further requires accounting books and records to be executed in Mongolian language and be reported in MNT. USD is an alternative currency to MNT for entities as their functional currency only on receipts of a fund upon approval from the Ministry of Finance. Businesses that must comply with IFRS are required to submit electronic reports on a semi-annual basis, whilst other entities are required to submit them annually. The financial report will not only be used for determining the applicable taxes and payments to be made, but also can be used by relevant government entities for other purposes. The purpose of the latter is aimed to improve the financial accountability of business entities. However, there are no changes in laws and regulations relevant for tax reporting purposes i.e. entities are still obliged to submit reports for tax purposes on quarterly basis.

The Law also clarifies the role and responsibilities of accountants of business entities. Financial documents in electronic form are also accepted by the Law in addition to the documents in written form. Specifically, the Accounting Law also allows filings by business entities’ financial statements to the Ministry of Finance electronically, signed by the executive directors or the chief accountants annually or semi-annually, prepared in accordance with relevant frameworks (IFRS, IFRS for SMEs, and IPSAS in accordance with Article 4.1 of Accounting Law).

Actual submission deadlines are stated in Article 10 of the Accounting Law. Relevant person who prepared, approved or reviewed these documents and stamped them using the company stamp must sign financial source documents in written form, while electronic documents are required to be confirmed by means of electronic signature.

Any form of submitted financial statements should be signed and stamped by the Executive Director and Chief Accountant.
Audit requirements

Legal entities, that are required to prepare financial statements in accordance with the IFRS are subject to audit. Furthermore, companies preparing consolidated financial statements, companies being restructured, liquidated, or proposing to sell their all assets through an auction, foreign invested companies, funds are required to be audited.

In case of joint stock companies, the audit should be completed at least 2 weeks prior to the shareholders’ meeting which should be scheduled within 4 months after financial year end in accordance with the Company Law.

Audits are required to be carried out by and with the International Standards of Auditing (ISA).

In accordance with the Auditing Law, an auditor is not allowed to provide audit services to the same entity for a consecutive period of more than 5 years. Upon completion of said 5 years there is a cooling off period of 3 years.

Foreign invested companies are mandatorily required to get their financial statements audited, on an annual basis under the Auditing Law.
Labor relations

Consideration for the investors:

• Employer must conclude an employment agreement with an employee in written form.

• For permanent positions, it is mandatory to conclude an employment agreement for indefinite period.

• For hiring foreign personnel/employees, the Government of Mongolia annually sets foreign employee quotas depending on headcounts of the local employees and characteristics of the sector where the companies are operating.

• Companies must pay work placement fee for per foreign employee on a monthly basis, when they hire a foreign personnel/employee.
Labor market

According to the National Statistics Office, Mongolia’s unemployment rate was 9.9% by the third quarter of 2019. Currently, 126,582 people are registered as unemployed. About 58.7% of them are men. Economically active population is approximately 1.2 million. Russian is the main foreign language amongst the older generation. This has changed to English amongst the young adult.

Employer/employee relations

Labor relations in Mongolia are regulated by the Labor Law of Mongolia dated 14 May 1999 ("Labor Law"). The draft of the revised Labor Law is under review of the Parliament, as of current.

In accordance with Labor Law, an employer shall conclude an employment contract with an employee in writing and deliver one copy of the contract to the employee. The employment contract shall be either for a specified term or for indefinite period. For permanent positions, it is mandatory to conclude an employment contract for an indefinite period. If an employment contract is concluded for a specified term for a permanent position, the contract may be deemed as established for indefinite term by the court order if the employee challenges the contract term.

Trade unions and collective agreements

Trade unions are visible generally in health, mining sector and energy sector. A collective agreement initially may be concluded on voluntary basis between an employer and the representatives of employees of a business entity or other functioning organization ensuring labor rights and legal interests that more favorable to the employees than those guaranteed by law and provided for other matters that are not directly regulated by Labor law. A collective agreement becomes binding upon its registration with the Governor of the Soum or district where the employer has its principal place of business.

Labor Law offers some flexibility in agreeing on terms and conditions of employment. However, the principle of protection of employees, as the economically weaker party, is applied – therefore the agreement between employee and employer on terms that are disadvantageous to employee, compared to what is set forth in legislation, may be void.

Salaries and wages

Salaries are to be determined by the employers independently but may not be lower than the MNT 420,000, a minimum wage amount as determined by the tripartite National Labor Committee of Mongolia. The Tripartite National Labor Committee is composed of the Cabinet, the Nationwide labor union and the Employers’ association. Employers are responsible for deducting social insurance premiums from the monthly gross salary of its employees. Employee rates are 11.5% but are capped at MNT 483,000 per month effective from January 1, 2020. Employment contract must specify a monthly base salary of an employee.

Working hours

It is presumed that a full-time employee works 40 hours during a 7-days period, 8 hours per day. The hours of part-time employees are agreed between the employer and employee. For employment of person with disabilities, the maximum work hours per week should not exceed 36 hours. Overtime is normally permitted upon an agreement between the employer and employee subject to additional pay under the Labor Law. Details regarding work regime, such as the start and end of the workday, time for meals and other breaks, may be determined by internal work procedures, collective agreement or work contract.

An employee is entitled to annual paid leave in the amount of minimum 15 calendar days.
Equal opportunities

The Labor Law prohibits gender-based discrimination in employment and requires same salary for men and women who work in a same position. Furthermore, when recruiting an employee for work, an employer may not ask questions pertaining to the private life, ideology, marital status, political party membership, religious beliefs, or pregnancy of the employee unless such questions are related to the work or duty to be performed.

The Labor Law requires that legal entities must employ a person with disability or a Lilliputian person in every 25 employment positions. Otherwise, employers are required to pay a monthly fee equal to an average salary of the total employees per vacancy for a person with disabilities or Lilliputian person as an alternative option.

Termination of employment

Bases for the termination of an employment agreement are provided in the Labor Law. Below are details of the social insurance premiums for 2020:

<table>
<thead>
<tr>
<th>Type of insurances</th>
<th>Employer</th>
<th>Employee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pension</td>
<td>8.5%</td>
<td>8.5%</td>
</tr>
<tr>
<td>Benefit</td>
<td>1.0%</td>
<td>0.8%</td>
</tr>
<tr>
<td>Health</td>
<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Industrial accident and occupational disease</td>
<td>0.8% - 2.8%</td>
<td></td>
</tr>
<tr>
<td>Unemployment</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Employer may not cancel employment contract at their discretion, but the contract may be terminated under the conditions set forth in that specific employment contract between the respective parties. In case an employer initiates termination, it is important to comply the local procedure for termination which are to document the key events, to specify proper legal grounds in a termination notice and employer’s official decision in a written form.

Social security system

Both employee and employer in Mongolia must contribute to the Social Insurance Fund which provides maternity allowance, sickness allowance, occupational accident allowance, unemployment benefits, pensions, amongst others to the insured. Employers are required to pay 12.5%-13.5% social insurance premiums depending on the industry they operate in, on top of the employees’ gross salary. Furthermore, employers are responsible for deducting employees’ portion of social insurance premiums from the monthly gross salary of the employees. Employee rates are 11.5% but are capped at MNT 483,000, currently.

Public Holidays

Before investing in a round-trip ticket to Ulaanbaatar, it is prudent to be aware of the following official Mongolian public holidays:

<table>
<thead>
<tr>
<th>Date</th>
<th>Holiday</th>
</tr>
</thead>
<tbody>
<tr>
<td>January 1</td>
<td>New year</td>
</tr>
<tr>
<td>3 days between the end of January and early March (dates vary every year depending on Lunar calendar)</td>
<td>Tsagaan Sar (Lunar New Year)</td>
</tr>
<tr>
<td>March 8</td>
<td>International Woman's Day</td>
</tr>
<tr>
<td>June 1</td>
<td>Children’s Day</td>
</tr>
<tr>
<td>July 11-15</td>
<td>Naadam (Mongolian national holiday)</td>
</tr>
<tr>
<td>1 day in November (dates vary every year depending on Lunar calendar)</td>
<td>Chinggis Khaan Memorial Day</td>
</tr>
<tr>
<td>November 26</td>
<td>Proclamation Day</td>
</tr>
<tr>
<td>December 29</td>
<td>Independence Day</td>
</tr>
<tr>
<td>5 June (dates vary every year depending on Lunar calendar)</td>
<td>Buddha Day</td>
</tr>
</tbody>
</table>
Foreign personnel/employees

Foreign citizens who are to stay and work in Mongolia must obtain a work permit. Obtaining work permits can be time-consuming, generally taking four weeks before entry and an additional two weeks after entry. Before arrival a single-entry work visa must be applied for at any Mongolian embassy worldwide. Practice varies from embassy to embassy.

After entry, foreign worker must be registered within seven calendar days at the Immigration Office or will face a fine of up to MNT 1,000,000. The application process for the work permit and visa will also continue after entrance of the employee. While provisional approval for a work permit must be applied for and obtained before entry, once the foreign worker has entered, an actual work permit must be obtained from the Labor Office of the Ministry of Labor and Social Welfare. A workplace fee in the amount of MNT 384,000 per month of the work permit must also be paid in advance to the Labor Office.

Once the work permit has been obtained the single-entry work visa must be extended to a long-term multiple entry visa. Additionally, a long-term residency permit must also be obtained from the Immigration Office.

Individual (not corporate) shareholders or the registered Executive Director of a foreign invested company do not need to hold work permits in order to work in Mongolia. These categories of employees qualify for an Investor’s Card from State Registration Office and the accompanying T-type visa and a long-term residency permit. Holders of a T visa are not required pay the workplace fee.

The Government of Mongolia sets foreign workers quota, for both locally owned and foreign invested companies operating in Mongolia. Depending on the sector, the quota ranges from 5% to 80%. Total amount of investment and total number of employees of a company will also influence its quota. The default business activity of all foreign invested companies is “foreign trade” which has attached quota of 5%. This means that a company must maintain 20 Mongolian employees for every 1 foreign employee. Quotas may increase depending on the sector. For instance, companies who have mining or exploration license have a quota of 10% while companies who extract oil or natural gas may maintain a workforce comprised of foreign employees up to 80%.

Foreign citizens may own buildings in Mongolia but not allowed to own land.
Consideration for the investors:

- The purpose of the tax reform is to bring the Mongolian tax law in line with the international tax concepts.
- In particular, general anti-avoidance rule (“GAAR”) and comprehensive transfer pricing (“TP”) rules are introduced in the Mongolian tax system.
- In addition, the tax base was broadened and many provisions in the tax laws became more detailed and comprehensive, although their application still requires further interpretation and guidance from the tax authorities.
Tax System

The National Tax Administration is comprised of the state administrative body (General Department of Taxation) which oversees tax agencies and offices of capital city, province, district; and tax branches of Soum and state tax inspectors.

A process for selecting a taxpayer for tax audit will be performed based on risk assessment criteria from 2020.

A statutory limitation period becomes 4 years from 2020. The statutory limitation period covers a tax reassessment, fines, penalties, utilization of a tax credit, tax loss carry forward and validation of the VAT assessment.

A comprehensive system of sanctions for non-compliance with the tax legislation is introduced from 2020. For instance, if the taxpayer fails to levy a tax or reduces a tax payable in order to not pay a tax or hides objects of taxation, a reassessed tax and a penalty shall be levied as follows: - 30% of a reassessed tax if a tax payable is reduced by up to 50%; - 40% of a reassessed tax if a tax payable is reduced by 50% or more; - 50% of a reassessed tax, in case of the repeated breach.

Legislative framework

The Parliament revised the General Tax Law (“GTL”), the Corporate Income Tax Law (CIT Law) and Personal Income Tax Law (“PIT Law”) in 2019. These key tax laws became in force from 1 January 2020 and introduced various new rules and international tax concepts such as GAAR, controlled foreign company (CFC) rules, a transferee tax liability, a legally binding tax ruling, etc.

Mongolia joined the Inclusive Framework of the Base Erosion and Profit Shifting Project (BEPS Project) implemented by the OECD on 25 December 2017. Therefore, many BEPS Project recommendations, including the minimum standard requirements, are included in the new revised tax laws.

Tax return and payments

Tax reports are compiled by the taxpayer, tax agent or their representative. The reports must be prepared in Mongolian language and submitted electronically; supporting documentation must also be in, or translated into, Mongolian.

Advance clarifications

Since 2020, the tax authority will start to issue a guidance/recommendation for implementing tax laws based on a taxpayer’s request or under its own discretion. Furthermore, such binding advance ruling will include the tax authorities’ recommendation on consequences of a transaction based on the tax dispute resolution practice.

Rulings will be binding for the tax authorities. Rulings will not be issued on matters in relation to transfer pricing, investment agreements, product sharing agreements, ongoing tax disputes and may be denied for and transactions with the sole purpose of tax avoidance and if a taxpayer who requested the binding rule is under an ongoing tax audit. A binding ruling will be issued within 30 calendar days after submitting the request or within additional 30 calendar days if the tax authorities have a valid reason to extend the deadline. A binding ruling will be published on the tax authorities’ website, with due regard for the protection of privacy of taxpayers involved.

Appeals

Where there is a dispute regarding the tax re-assessed by the tax authorities, taxpayers have a right to appeal the assessment by submitting a petition to the Tax dispute resolution committee (TDRC) within 30 calendar days from the receipt of the formal document containing the tax assessment. However, before submitting a petition to the TDRC, the taxpayer must pay 10% of a disputed amount, which should not exceed MNT 100 million, as a cash deposit to the state budget. If the dispute is resolved in the taxpayer’s favor, the deposit will be returned to the taxpayer. A disputing party either of the taxpayer or tax administrator may appeal the resolution of the TDRC further to the Administrative court, if not satisfied with the TDRC’s decision.

Tax treaties

Mongolia has double tax treaties with the following countries:

- Austria
- Belarus
- Belgium
- Bulgaria
- Canada
- China
- Czech Republic
- France
- Germany
- Hungary
- India
- Indonesia
- Italy
- Kazakhstan
- Korea
- Kyrgyzstan
- Malaysia
- North Korea
- Poland
- Russia
- Singapore
- Switzerland
- Turkey
- Ukraine
- United Kingdom
- Vietnam
Taxation of corporations

Corporate tax system
The CIT Law governs the taxation of profits of i) entities incorporated in Mongolia; ii) entities having their effective place of management in Mongolia, and iii) foreign entities, including their permanent establishments (“PEs”) that earn income sourced from Mongolia.

Taxable income
Taxable income falls under the following four categories:

- Income from activities (income from business activities, sale of rights, shares and securities);
- Income from property (rent, royalties, dividends, and interest);
- Income from the sale of property (both immovable and movable); and
- Other income.

CIT rates are 10% on the first MNT 6 billion and 25% on excess profits thereafter. But 1% CIT can apply to entities with revenue of up to MNT 300 million and 90% tax credit can apply to entities with revenue of up to MNT 1.5 billion (not applicable to entities operating in mining, petroleum, alcoholic beverages and tobacco industries).

Since 2018, a special tax rule was adopted for a sale of shares in a Mongolian legal entity which hold a mining license and/or a right to use or possess a land. Under this new rule, a concept of the ‘ultimate beneficial owner’ (“UBO”) was introduced and those companies holding mining license and or land use/possess rights in Mongolia are required to disclose their UBOs and any changes thereof. In case there is a UBO change as a result a sale of shares, the transaction is deemed a ‘sale of rights’ and subject to 10% CIT on a net basis. The tax base for the transaction can be determined either of the share purchase agreement or the value of the associated mining license or land use/possess right.

Methods for defining the tax base for the sale of rights transactions are regulated by secondary legislations approved by the Ministry of Finance.

Losses
Losses can be carried forward for up to four years and use of such losses is restricted to 50% of the taxable profit in any year.

Thin capitalization rule
A thin capitalization rule (debt-to-equity ratio is 3:1) applies on the investor’s loan, and interest paid in excess of this ratio is not deductible and is treated as a dividend. Furthermore, the new CIT Law introduced another restriction on the related parties’ loan and interest shall not exceed 30% of EBITDA for given year.

Returns and payments
Taxpayers are required to submit quarterly, semi-annual and annual returns to the tax authorities by the 20th of the month following the end of each quarter and 10th February for the annual return. Following the submission of the returns, the tax authorities issue monthly/quarterly payment schedules and payments must be made by the 25th of each month.

Certain types of income maybe taxed at different rates for resident taxpayers:

<table>
<thead>
<tr>
<th>Income</th>
<th>Tax rates</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dividends</td>
<td>10%</td>
</tr>
<tr>
<td>Royalties</td>
<td>10%</td>
</tr>
<tr>
<td>Interest</td>
<td>5%*10%</td>
</tr>
<tr>
<td>Insurance reimbursement</td>
<td>10%</td>
</tr>
<tr>
<td>Gambling, betting games and lotteries</td>
<td>40%</td>
</tr>
<tr>
<td>Sale of immovable property (gross)</td>
<td>2%</td>
</tr>
<tr>
<td>Sale of rights (gross)</td>
<td>10%</td>
</tr>
</tbody>
</table>

* Applicable to interest income earned by a resident taxpayer (who does not hold mineral, radioactive mineral and petroleum exploration and mining license) from debt instrument traded at foreign and domestic market through initial and secondary public offering.
Deductibility of expenses

Expenses mostly associated with an income generating activity are deductible (provided that they are properly documented and registered in an electronic VAT system). For VAT-registered persons, revenues and expenses are calculated without VAT. For non-VAT-registered persons, the VAT component of expenses will be normally included in deductible expenses.

Non-deductible expenses

Under the general rule, any expense not directly relevant to the taxpayer’s business activities are non-deductible for the CIT purposes.

Furthermore, there are some expenses stated as specifically non-deductible, for instances, finance lease payments, fines and penalties, expenses incurred for earning exempt income, expenses not supported by primary documents, and payments from which required taxes are not withheld.

Depreciation and amortization

For tax purposes, a depreciation is calculated using the straight-line method over the useful economic life of the asset that depends upon the nature of the asset, ranging from 2 years for IT equipment to 40 years for buildings and constructions used by the mining companies.

Related party transactions

If prices used in related party transactions are below or above than the prices used in similar transactions between unrelated parties, then the tax authorities have the right to determine the taxable value of the transactions using arm’ length price. The general TP principles are set in the GTL and applies to all taxes. There are no advance pricing agreements (APAs).

Starting from 2020, a comprehensive TP rules are introduced to align with the OECD requirements. The qualifying entities would be required to report an annual TP report, a local file, a master file, and a country by country reporting.

Withholding tax

Dividend, interest, and royalty income of a Mongolian resident taxpayer are subject to withholding tax (WHT) at 10%. Withholding tax is applied to the gross proceeds on the sale of immovable property at 2%.

Non-resident taxpayer with no presence in Mongolia is subject to a 20% WHT on income sourced from and earned from Mongolia.

Permanent establishment

It is possible to register a non-resident’s PE in Mongolia. However, PEs does not have any legal status in Mongolia, except for a registration with the tax and social insurance authorities. The tax authority is mandated to adopt a PE guidance, including registration and tax reporting aspects. The following PE definitions are introduced in the revised CIT Law:

- a Construction PE should be constituted if a foreign entity is carrying activities for 90 days and more in Mongolia;
- a Service PE should be constituted if a foreign entity is providing services through employees or other personnel that present in Mongolia for 183 days and more within 12 consecutive months;
- an Agency PE should be constituted if an agent “habitually plays the principal role leading to the conclusion of contracts that are routinely concluded without material modification by the enterprise”.

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Taxation of individuals

Territoriality and residence

Individuals are considered as resident taxpayers of Mongolia if he/she stays in Mongolia more than 183 days within consecutive 12-month period or if more than 50% of his/her taxable income is sourced from Mongolia. A non-resident taxpayer of Mongolia is subject to tax on income earned from Mongolia in a tax year, which is same with a calendar year.

Taxable income

Employee Gross Income

A 10% or 20% PIT applies to employees’ gross income which includes all direct and indirect income received through employment or related activities during a calendar year.

Capital Gains and Investment Income

There is no capital gains tax in Mongolia.

Gross income from sale of immovable property is taxed at a rate of 2%. Gain from the sale of movable property, including securities. Dividends and interest income earned by the resident individuals is subject to a 10% tax, withheld at source.

Deductions

Business deduction

There are no business deductions allowed for employees, except for SHI. An individual may claim business deductions if registered as an entrepreneur. There are no deductions for non-business expenses.

Tax credits

A credit is available for individuals who have suffered tax in foreign countries, which have signed the exchange of information agreement with Mongolia. Tax credits are also available for agricultural production and educational fees.

Taxation of non-residents

Non-resident taxpayers are subject to a 20% PIT for their Mongolian sourced income on a gross basis.

Related parties

If related parties have sold goods, performed work, rendered services, and transferred property below or above fair market value, the tax authorities have the right to determine the value of such goods, work, and services based on an arm’s length price of similar goods, work and services.

Returns and payments

Employment income, interest, dividends, and royalty income are subject to a withholding tax. Employers and other business entities that provide income to individuals are defined as tax agents (withholders) and are responsible for withholding tax and social insurance contribution (if applicable) and remitting them to the state budget and the appropriate authorities.

A withholder shall submit a quarterly report of tax withheld by the 20th of the first month of the following quarter and the annual tax report by February 15th of the following year to the corresponding tax authority.

Income not covered by withholding should be reported by the individual on an annual tax return to be submitted to the tax authorities by February 15th following the end of the tax year.

<table>
<thead>
<tr>
<th>Source of income</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Employment income</td>
<td>10%</td>
</tr>
<tr>
<td>Business and professional income</td>
<td></td>
</tr>
<tr>
<td>Income from property, i.e. dividends, royalty, interest, capital gain from sale of securities/stocks</td>
<td></td>
</tr>
<tr>
<td>Sale of immovable property (gross)</td>
<td>2%</td>
</tr>
<tr>
<td>Income from scientific, literacy artistic works, inventions, product, designs and useful designs (gross)</td>
<td>5%</td>
</tr>
<tr>
<td>Designs and useful designs (gross)</td>
<td></td>
</tr>
<tr>
<td>Income from sports competitions, art performances, and similar income (gross)</td>
<td></td>
</tr>
<tr>
<td>Income from betting games, gambling and lotteries (gross)</td>
<td>40%</td>
</tr>
</tbody>
</table>
Social and health insurance contributions

Both employee and employer in Mongolia must contribute to the Social insurance fund which provides maternity allowance, sickness allowance, occupational accident allowance, unemployment benefits, pensions, amongst others to insureds. Employers are required to pay 12.5%-13.5% social insurance premiums depending on the industry they operate, on top of the employees’ gross salary. Furthermore, employers are responsible for deducting employees’ portion of social insurance premiums from the monthly gross salary of the employees. Employee rates are 11.5% but are capped at MNT 483,000 currently.

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</tr>
<tr>
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<td>2%</td>
<td>2%</td>
</tr>
<tr>
<td>Industrial accident and occupational disease</td>
<td>0.8% - 2.8%</td>
<td></td>
</tr>
<tr>
<td>Unemployment</td>
<td>0.2%</td>
<td>0.2%</td>
</tr>
</tbody>
</table>

Returns and payments

Social and health insurance returns should be submitted electronically before the 5th of the following month on a monthly basis. Payments should be within the reporting month to the account of the Social Insurance Fund.
Value Added Tax (VAT)

VAT is imposed at the rate of 10% on the supplies of goods, work, services by a taxpayer in the course of its business activities in Mongolia. The taxpayers must be registered as VAT withholders when their turnover reaches MNT 50 million within 12 consecutive months.

If a taxpayer’s revenue has not reached MNT 50 million after registered as the tax withholder for consecutive 12 months, the tax office shall deregister this taxpayer from VAT.

Timing of VAT imposition

VAT shall be imposed at the earliest of the following events:

- The day when the seller receives revenue for goods, works and services;
- The day when the payment receipt is proceeded for sales of goods and rendered services;
- The day of purchase of goods, works and services.

Zero-rating

The following are zero-rated supplies for VAT purposes:

- Export sales of goods;
- International transportation services;
- Services provided outside of Mongolia;
- Services provided to a foreign citizen or legal entity not present in the territory of Mongolia during the provision of services (including tax-exempt services);
- Services provided to domestic or international aircrafts conducting international flights;
- State medals and coins produced domestically;
- Export of final mining products (processed rather than raw materials).

Exempt supplies

The following is a list of selected VAT exempt supplies of goods:

- Civil aviation aircrafts and spare parts;
- Gas fuel, its containers, equipment, custom machinery, mechanisms, tools, and spare parts;
- Gold sold;
- Exported mining products other than those zero rated;
- Produced or planted cereals;
- Processed meat;
- Processed milk and milk products;
- Equipment and spare parts produced and sold in Mongolia for use in small and medium enterprise’s production line;
- Raw materials, reagents that are not produced domestically, and required for carrying out production of new goods and products within innovation project for domestic and foreign markets, etc.

The following is a list of selected VAT exempt supplies of services:

- Currency exchange services;
- Insurance and property registration services;
- Services for issuing, transferring, selling securities;
- Provision of loan;
- Services in respect of payment for bank or financial lease interest, dividend, credit guarantees or insurance contract;
- Renting of residential accommodation.
VAT base

In general, the tax base is the fair market value of the goods sold, work performed, or services provided. For imported goods, this should include customs duty, excise tax and other such taxes on customs value of the goods which is determined in accordance with the Law on Customs Tariffs and Duties.

VAT liability and offset

Mongolia operates the input-output model of VAT. The VAT withholder deduct the VAT paid on their inputs from the VAT charged on their sales and account for the difference. If output VAT exceeds input VAT, the difference is paid to the tax authorities. Otherwise, it is subject to refund (if eligible) or could be carried forward to offset future liabilities.

Pro-rating is required where VAT is incurred partially for exempt and partially for VAT-able or zero-rated supplies purposes.

Transactions with non-residents

Works and services received from a non-resident (irrespective of whether they are supplied in Mongolia or not) subject to VAT under the reverse charge procedure (the RC VAT). If imported goods were not subject to the customs clearance, such goods shall be taxed with the RC VAT as well.

The VAT threshold of MNT 50 million is not applicable to goods, works and services purchased from a non-resident. And since the RC VAT and ‘normal’ VAT shall be reflected in different returns, VAT-withholders are not able to offset their RC VAT liability against the ‘normal’ VAT.

Non-recoverable input VAT

Input VAT incurred for the following transactions is restricted to offset:

- VAT which does not relate to VATable transactions of the reporting period;
- acquisition of passenger car, its parts and spare parts;
- purchase of goods and services for personal and employee’s need;
- purchase of goods and services for VAT exempted goods or services;
- RC VAT incurred upon purchases from non-residents.

Importantly, based on revisions effective from 2020, the input VAT incurred on capital expenditure can be recovered as follows (previously it was prohibited for recovery):

- Buildings and constructions: over 10 years;
- Equipment: over 5 years; and
- Other capital assets: in the same year of the purchase.

Refunds

VAT-registered persons may apply for a cash refund. According to the VAT Law, if an application for a refund is filed, the tax authorities are required to check and confirm the entitlement within around 25 days. The State Treasury should then remit money to the applicant’s bank account within 45 business days after receiving all documents from the tax authorities.

Obtaining VAT refunds has been a major problem area for investors. As an alternative to a cash refund, the legislation allows to offset such VAT refund against the future VAT or other tax liabilities (but not RC VAT).

Returns and payments

VAT is accounted for on a monthly basis and paid by the 10th of the following month. Returns must be submitted by the 10th of the month.
COVID 19 - Stimulus package

Parliament’s measures for stimulating the economy:

On 9 April 2020, the Parliament adopted a resolution and the following laws were promulgated in response to the COVID-19 pandemic, for the purpose of protecting the public health, safeguarding the employments and stimulating the economy:

• Law on Corporate Income Tax Exemptions and Tax Credits
• Law on waiver from Tax Penalties and Fines
• Law on Exemption from Personal Income Tax
• Law on Exemption from Customs Duty
• Law on Exemption from Value Added Tax
• Law on Exemptions from Social Insurance contributions and Support from the Unemployment Insurance Fund
• Law on waiver of Penalties and Fines on Employer contribution Social Insurance.

Below is an overview of the Government’s key measures to stimulate the economy and providing relief to individuals, legal entities and organizations impacted adversely by the Covid-19 pandemic:

1. Exemption from social insurance contribution to employees and employers and providing of allowance to employees out of the Unemployment Insurance Fund. Social insurance contribution by employers and by employees (applicable only to Mongolian citizens) who work at legal entities, that protected job positions of its employees despite decrease in their revenues due to the impact of COVID-19, will be exempt from payments of such contribution for period of 6 months (from 1 April 2020 to 1 October 2020). Furthermore, employees will be provided with allowances for 3 months.

*For employees of those legal entities, it will be construed, that all such social insurance contribution in relation to pension, unemployment insurance and industrial accident insurance, levied on wages and similar income shall be deemed to be as paid for all purpose of the social contribution law.

The said exemption is not applicable to the following persons/cases:

• For insured persons working in state organizations, legal entities with wholly or partially owned by state or local government, excluding the state-owned universities and colleges as well as those whose salaries are being paid for the performance of contracts which are funded by loans or grants from foreign countries or international organizations.

• For private businesses, organizations and voluntarily insured persons who are newly registered under the social insurance schemes of the Government, on or after 25 March, 2020.

However, "health insurance” premiums are not subject to the above exemption, and they are continued to be levied and paid at the rate of 2% of the salary, as same before.

During the period from 1 April 2020 to 1 July 2020, a monthly allowance of MNT 200,000 will be provided to insured persons-Mongolian nationals for 3 months out of the Unemployment insurance fund:

• The allowance will be provided to employees of legal entities, excluding legal entities which are state or local government owned or entities with a state ownership participation. Eligible entities must prove that their operation was suspended by the decision of the state authorities in response to the COVID-19 outbreak and they should continue to maintain the employees headcount in spite of the decrease in their revenues during February and March 2020 by 50% or more as compared to the same period of the previous year.
2. Personal income tax exemption will apply on salaries, wages, bonuses, incentives and similar employment remuneration earned by Mongolian nationals from 1 April 2020 to 1 October 2020.

3. Corporate income tax exemption

Income of resident taxpayers, whose taxable income specified under Articles 18.2, 18.3, 18.4 and 18.5 of the Corporate Income Tax Law were less than MNT 1.5 billion in the previous tax year and who duly reported and were regular in payment of their obligations in accordance with Article 20.1 and 20.2.7 of the same Law, shall be exempted from corporate income tax from 1 April 2020 to 1 October 2020.

This exemption is not applicable to taxpayers which are owned by state or local government authorities or by those entities which generates income from business which are awarded by public tenders or which are funded by loans or grants by foreign countries or international organizations. Further taxpayers can opt not to claim benefit under this Law on CIT exemption.

4. Exemption from custom duty and a value added tax for the import of diagnostic kits, drugs, medical devices, equipment, disinfectants and face masks for the purpose of treatment or diagnostic of the COVID-19.

5. Waiver of penalties and late payment interests

If taxpayers fail to pay the taxes during the period from 1 February to 1 September 2020, the applicable penalties and late payment interests will be waived off.

If legal entities, which submitted social and health insurance reports during 1 February to 1 April 2020, fails to pay the applicable social insurance contributions, the applicable penalties and late payment interests will be waived off.
Key employment matters in relation to COVID 19

Mongolia is considered a high-risk territory when it comes to COVID-19 infection. Regulators are strongly recommending organizations to take preventive health and safety measures while requiring them to take disinfection measures. The below provides for key points to take:

**Employer’s obligations in relation to health and safety**

Apart from general obligation to provide with working condition that meets general health and safety requirements, employers are required to adopt and implement a “special work regime” and other measures which are being advised/mandated by the authorized state officials during this Heightened state of readiness.

**Organizational working arrangements**

Due to COVID-19, many companies are reducing working hours or are suspending operations that in turn creates need to reduce the workforce. Proper planning of working regime and workforce structural changes should be implemented in accordance with the applicable law. Mongolian Labour Law and the court practice on the employment matters have a reputation of being employees’ friendly. Therefore, employers should assess case-by-case thoroughly to implement the workforce structuring decisions.

**Salary related matters**

Not only employees infected with COVID-19, but there are many employees who are quarantined or requested to self-isolate by the authority are unable come to the office or perform their employment duties. Moreover, many individuals including expats are unable to come to Mongolia as the country has shut down its border. Thus, employers are asking whether they are required to pay employees who are unable to work due to many different circumstances. For the most of cases, employers are required to pay. However, the amount of the pay is different depending on an employee's situation.

**Additional preventive measure**

Proper documentation of employment relations always helps the employer to defend themselves before the authorities. Burden of proof is on employer in case there is an employment dispute. Since the formality plays important role with authorities in Mongolia, it is important to have all the necessary documents and supporting materials when employers make difficult decisions with their employees.

What are Employers’ Key Obligations in Relation to Health and Safety

In accordance with the Labor Law, employers have duty to provide healthy and safe working conditions to their employees. This implies taking reasonable steps to eliminate or minimize hazards and risks to health and safety in the workplace.

Moreover, employers are required to take required measures to prevent/minimize impact of epidemics under Law on Prevention of Disasters.

In relation to the COVID 19 virus, it is advisable for employers to take health and safety measures that are in line with the guidance provided by the National Emergency Commission and the Ministry of Labor and Social Welfare, including the following:

- To adopt and implement a special work regime
- To arrange “work from home” arrangement to reasonable extent
- To arrange work shifts for those who need to work at the office
• To provide safe/healthy working conditions including necessary tools for preventing viruses and boosting immunity system of employees who are necessary to work at the office
• To take necessary measures to supervise or control employees who are working from home
• To appoint a supervisory staff who controls or supervises implementation of the work regime.
• To take measures to prevent the spread of infection among employees such as requiring everyone to wear protective masks, providing employees with necessary health supporting supplements and organizing scheduled office disinfection

Is it a temporary disability if an employee is infected with COVID 19?

Yes, an employee who is infected with COVID 19 is to be deemed as having a temporary disability.

• Under the Mongolian law, temporary disability may last 66 calendar days in general.
• Medical certificate confirming a temporary disability of an employee and the applicable duration must be provided to the employer.
• During the temporary disability, an employee is entitled to receive monetary support from an employer for first 5 days that usually equals to the monthly salary. Starting from the day 6, the allowance for temporary disability will be provided from the Social welfare fund.
• Therefore, in relation to any employee that is infected with COVID 19:
  o Job position of affected employee must be maintained
  o Medical certificate shall be issued
  o The employer is required to pay salary for the employee for first 5 days unless internal labor manual of the employer provides more favorable conditions to employees

Is an employer under duty to pay a salary to a person in quarantine or self-isolation?

Yes, quarantine or self-isolation is deemed as an excusable ground for no performing duties by the employees under the Labor Law of Mongolia.

Therefore, the employer is required:

• to pay salary equal to not less than 50% of employee’s base salary during the quarantine or self-isolation period.
• Job position of the affected employee must be maintained.

Is an employer under duty to pay if activities of a project or certain parts of the company is suspended in relation to COVID 19?

Yes, an employer must pay salary no less than 60% of the base salary of the affected employees, if the employer suspends employment activities on a ground which is not attributable to the employee. Such suspension is deemed as downtime under the Labor Law.

In accordance with the Labor Law, employers have two options in relation to downtime. One is to transfer employees to a different job, or to temporary suspend employees’ work without transferring. The following points should to be considered by the employer:

• In case of transferring employees to another job, the employee’s consent should be obtained. In such case, employee shall be paid same salary he/she used to be paid;
• In case the employment of an employee is suspended, the affected employee is entitled to be paid no less than 60% of his/her base salary;
• However, those who refused to work for a different duty without excusable ground will lose his/her salary entitlements during the downtime.

May an Employer terminate an employment contract on the grounds related to COVID 19?

• Due to COVID-19 many companies are reducing working hours or are suspending operations that in turn creates need to reduce the workforce.
• The Labor Law of Mongolia exhaustively lists the grounds for termination of the employment contract. Epidemic is not within the listed grounds and therefore an employer may not terminate employment relations with reference to epidemic.
• Termination of the employment contract is generally viewed as the last resort, and therefore the employers are advised to take all measures not to terminate the agreements. In this respect it is advisable to first talk to employees, review the employment arrangements, working hours, compensation, offer employees to use their paid and unpaid leaves, etc.
• in the event an employer does not have other options, the employer may have right to terminate the employment agreement. In the context of COVID-19, the termination ground for an employment contract may be “reduction/elimination of a position” or “organizational change” or “closing of a branch or unit” as provided under the Labor Law. The employer shall assess on case-by-case which of these grounds are applicable to their specific case as there are specific restrictions for applying under the Labor Law.
• Moreover, employees must be notified 30-45 calendar days before the termination and provided with a severance pay.

In the event employers terminate employment contract based upon the above grounds, those positions which were eliminated/reduced should not be re-created within 3 months period.
Performance of Contractual Obligations

1. Is COVID-19 considered a Force Majeure event?

Mongolian laws contain several provisions regulating performance of contractual obligations in case of Force Majeure, however, there is no definitive terminology as to exactly what should be considered such.

In accordance with the general principle of freedom in the Civil Law, contracting parties are allowed to define and choose to include more specific provisions regulating the events of Force Majeure, which is common practice in contractual relation in Mongolia.

However general legal principles relative to Force Majeure events still may apply to COVID-19. By that, when and if any dispute shall arise due to suspension or cancellation of performance of contractual obligation or a contract, courts may deem such non-performance as reasonable while requiring full performance or reasonable performance of obligation when such events end, unless parties have reasonable grounds to terminate the contract.

In consideration of the above, COVID-19 or circumstances arising from it, may be regarded as Force Majeure since COVID-19 is a situation that was unpredictable at the time of concluding a contract, or the situation is beyond the control of the contracting parties and cannot be overcome due to heavy regulation by the regulators.

2. What are the legal consequences for contracting parties if COVID-19 or circumstances arising from it are regarded as Force Majeure?

A. Performance obligations is impossible-General provisions of law
   • In accordance with the Civil Law, parties may withdraw from the contract or contractual obligation on reasonable grounds.
   • Mongolian laws consider an event of state of emergency or Force Majeure that is causing it to be not possible to demand the extension or continuity of the contract.
   • The contract may be terminated within a reasonable period of time after becoming aware of the grounds for termination or Force Majeure event.
   • If one of the parties terminates the contract in accordance with the law or the contract, the parties are obliged to return to each other the performance of the contract in kind, as well as the profits from the performance of the contract.

B. Performance of obligations is impossible-Contractual provisions
   • Civil Law is based on contractual freedom principle, which implies that contracting parties may choose Force Majeure provision when concluding a contract.
     • Thus, it is important to understand and look at specific provisions related to Force Majeure, if any, in the given contract in relation to performance of contractual obligation.
     • The performance of contractual obligation may provide for right to demand full or partial performance depending on the provision.

C. Performance of obligation is overdue and needs to be extended

In relation to the party that has an obligation of contractual performance, delay or overdue in the delivery of performance shall not be considered overdue or delayed if, the circumstances that led to the overdue or delay are not the fault of the obligated party.

However, above provision will not grant the obliged party of non-performance. This only implies that if any overdue or delay in performance occurs due to COVID-19, the party undertaking such obligation will not be held liable for additional performance or compensation apart from original performance.

Also, please note that provisions in a certain contract dictates its implementation, so if it is provided otherwise in the contract then the contract provisions should prevail.

*Proof of Force Majeure event or Hardship*

Although specific regulations or definitive approach of Mongolian laws to Force Majeure and Hardship is still grey, contracting parties may take additional measures to prove non-performance is caused by Force Majeure or hardships that are arisen due to it. Mongolian National Chamber of Commerce (the “MNCCI”) provides a service to issue proof of such events, if you need any official proof in order to terminate, extend and/or suspend performance of contractual obligation.

Limitations, prohibitions, epidemics and quarantines are considered a Force Majeure event in accordance with the MNCCI’s Procedure for issuing a proof of Force Majeure and Hardship.

In order to obtain a certificate, the following documents must be submitted to the MNCCI:

1. A letter requesting a certificate
2. A notarized copy of the contract (Mongolian translation if the contract is executed in foreign language)
3. A notarized copy of the incorporation certificate of the company
4. Other supporting documents evidencing that force majeure and hardship situation.
Recommended steps in-house counsel should take during Covid-19 in relation to contracts

1. Identify contracts that can be affected by the COVID-19 pandemic and the obligations that cannot be performed.

2. Analyze the clauses that reference force majeure, and clauses referring to assuming the risk for such events.

3. Gather required documents to confirm force majeure events.

4. Notify the counterparty of the event. Keep in mind that there may be specific deadlines in the contracts to do so. Keep close track of these deadlines.

5. Renegotiate contractual clauses to avoid litigation.

6. Keep records/evidence of situations causing concern to prepare for potential disputes.

7. Consider measures to mitigate the potential damage resulting from COVID-19 and alternative ways to fulfill obligations.
Time limits in administrative and legal proceedings

The issue of limitation periods or time arises when a person intends to file a claim to the court or when a person is involved in administrative or legal proceedings. Failure to meet the statutory time frames may extinguish a person’s right to make claim or to take certain procedural actions.

Is it possible to suspend running of a statutory limitation period?

- Under the Civil code, if a competent authority, due to emergency or force majeure was unable to refer to court within six months prior to the termination of the statutory limitation period, or if court was unable to run its regular operation, then – for a period, until such situation elapses, statutory limitation period shall be suspended.

- If, subject to certain preconditions, the event arising out of COVID-19 is deemed to be Force Majeure, the running of limitation period shall be suspended.

Is it possible to restore a term in administrative proceedings?

A term established by law or by an administrative authority shall be restored, if it is elapsed because of the events beyond a person’s control (e.g. force majeure, quarantine, illness, other excusable cause). If, subject to certain preconditions, the event arising out of COVID-19 is deemed to be force majeure, an interested party may request the administrative authority to restore the elapsed term.

For example:

- When a participant who participates in administrative decision making process exceed the time period hereof in presenting an explanation and/or comments, for credible reason, the administrative authority may allow resumption of the time period.

- Person shall lodge an appeal against an administrative act with the administrative authority that will rule on the appeal, within 30 days of notifying of the act. If above-mentioned statutory limitation period has been exceeded for an excusable cause, the administrative authority that will rule on appeal will restore the time within 3 months of the exceedance.

Is it possible to extend or restore a procedural time limit?

- A procedural time limit can be established by law or by the court.

- The court may extend the time limit set by it on its own initiative or at the reasonable request of the party. Further, the court may restore the time limit prescribed by law for the performance of a certain procedural action, if it finds that the procedural action was not performed due to an excusable cause.

- Under Both of Administrative and Civil Procedure law, the parties, third party, their legal representative or lawyer may appeal within 14 days after receiving the order of the judge or decision of the court. If the parties, third parties, their representatives or lawyer have exceeded the time period for excusable cause, a request to restore the time limit shall be submitted with relevant evidence.

- Hence, if subject to certain preconditions set forth in law, Court may extend or restore the time limit under law.
## Appendix A

### Other Taxes

<table>
<thead>
<tr>
<th>Tax</th>
<th>Tax base</th>
<th>Tax rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>Immovable Property Tax</td>
<td>The tax is levied on the value of immovable property reported at the state registration. If the property is unregistered an insured value is used. In the absence of either the registered or insured value, the accounting book value is used.</td>
<td>Tax rates range from 0.6% to 1% depending on the location of property, usage, size, market demand, supply conditions of the immovable property.</td>
</tr>
<tr>
<td>Land Fee</td>
<td>Mongolian entities possessing or using land based on contracts should pay annual land fee on the value of the land.</td>
<td>Tax rates range from 0.01% to 1.0% per hectare depending on the location, usage and size.</td>
</tr>
<tr>
<td>Air Pollution Payment</td>
<td>Tax is levied on the produced raw coal, used or imported organic solvents and vehicles.</td>
<td>Tax rates vary depending on the type and toxicity of the pollutant.</td>
</tr>
<tr>
<td>Excise Tax</td>
<td>Tax is levied on manufactured in or imported goods such as tobacco, alcohol, gasoline and diesel fuel and passenger vehicles. The tax is also imposed on the physical units of special purpose technical devices and equipment used for betting games and gambling, and activities of individuals and legal entities that conduct such activities.</td>
<td>Tax rate vary depending on type of goods.</td>
</tr>
<tr>
<td>Customs Duty</td>
<td>Tax is levied on the purchase price of the imported goods excluding some products such as equipment such as wood, gas fuel, its container, equipment, special purpose machineries, and mechanisms which are exempt from custom tariff. Export duties apply to certain exported goods such as unprocessed wool, wood.</td>
<td>Tax rates range from 5% to 20% depending on the type of product.</td>
</tr>
<tr>
<td>Stamp Duty</td>
<td>Stamp duties are imposed, inter alia, on the following deeds: - Monitoring of and decisions on matters of legal status by a court of law; - Registration of business entities and organizations; - Registration of business entities with foreign investment, foreign organizations, their branches and representative offices; - Permission to carry out services and production which requires special permission or expertise; - Grant of certification for copyright, patent or trademarks; - Registration of copyrights; - Granting of permission to carry out activities in respect of securities, other.</td>
<td>The amount of duty varies depending on the type of services involved.</td>
</tr>
<tr>
<td>Mining and Exploration License Fee</td>
<td>Mining license fee is determined per hectare, while exploration license fees are based on hectare and a year of exploration.</td>
<td>License fees vary for exploration and mining licenses.</td>
</tr>
<tr>
<td>Tax</td>
<td>Tax base</td>
<td>Tax rate</td>
</tr>
<tr>
<td>-------------------------</td>
<td>---------------------------------------------------------------------------</td>
<td>------------------------------------------------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Mineral Royalty Fees</td>
<td>Mining license holders should pay mineral royalty fees on the sales value of all extracted mining products that are sold, shipped for sale, or used.</td>
<td>The base mineral royalty rate for domestically sold coal for energy and as well as sale of gold to the Central Bank and its accredited financial institutions is 2.5%. The base rates for common mineral resources are set at 2.5%-5%. Additional rates (ranging from 0% to 30%) vary based on the type and level of processing, and the market price of the mineral sold, shipped, or used.</td>
</tr>
</tbody>
</table>
| City tax                | The tax is imposed on following goods and services in the capital city (Ulaanbaatar):  
- All types of alcoholic drinks;  
- All types of cigarettes;  
- Hotel services;  
- Resort/camp services;  
- Restaurant services;  
- Night club services. | Depending on the location and population distribution of the area where goods sold or services are rendered, the capital city tax varies between 0 – 1 %. |
Appendix B

Mongolia Double Tax Treaties

<table>
<thead>
<tr>
<th>Recipient</th>
<th>Dividends</th>
<th>Interest</th>
<th>Royalties</th>
<th>Technical fees</th>
</tr>
</thead>
<tbody>
<tr>
<td>Austria</td>
<td>5/10 (1)</td>
<td>10</td>
<td>5/10</td>
<td>N/A</td>
</tr>
<tr>
<td>Belarus, Republic of</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Belgium</td>
<td>5/15 (2)</td>
<td>10</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Bulgaria</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Canada</td>
<td>5/15 (7)</td>
<td>10</td>
<td>5/10</td>
<td>5</td>
</tr>
<tr>
<td>China</td>
<td>5</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Czech Republic</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>France</td>
<td>5/15 (7)</td>
<td>10</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Germany</td>
<td>5/10 (1, 4)</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Hungary</td>
<td>5/15 (9)</td>
<td>10</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>India</td>
<td>15</td>
<td>15</td>
<td>15</td>
<td>15</td>
</tr>
<tr>
<td>Indonesia</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Italy</td>
<td>5/15 (2)</td>
<td>10</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Kazakhstan</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Korea, Democratic People’s Republic of</td>
<td>5</td>
<td>5</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Korea, Republic of</td>
<td>5</td>
<td>5</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Kyrgyzstan</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Malaysia</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
<tr>
<td>Poland</td>
<td>10</td>
<td>10</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Russia</td>
<td>10</td>
<td>10</td>
<td>In accordance with domestic legislation</td>
<td>N/A</td>
</tr>
<tr>
<td>Singapore</td>
<td>0/5/10 (9, 6)</td>
<td>5/10 (10)</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Switzerland</td>
<td>5/15 (5)</td>
<td>10</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Turkey</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>Ukraine</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>N/A</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>5/15 (3)</td>
<td>7/10 (8)</td>
<td>5</td>
<td>N/A</td>
</tr>
<tr>
<td>Vietnam</td>
<td>10</td>
<td>10</td>
<td>10</td>
<td>10</td>
</tr>
</tbody>
</table>

Notes

1. 5% if the recipient is a company (excluding partnerships) and directly owns at least 10% of the capital of the company paying dividends.
2. 5% if the beneficial owner is a company (excluding partnerships) and directly or indirectly holds at least 10% of the capital of the company paying dividends.
3. 5% if the beneficial owner is a company that controls, directly or indirectly, at least 10% of the voting power in the company paying dividends.
4. 5% if the beneficial owner is a company (excluding partnerships) and directly owns at least 10% of the company.
5. 5% if the beneficial owner is a company (excluding partnerships) and directly owns at least 25% of the capital of the company paying dividends.
6. No tax if dividends paid to the government/certain public bodies.
7. 5% if the beneficial owner is a company and directly or indirectly holds at least 10% of the capital of the company paying dividends.
8. 7% if interest is paid to a bank which is the beneficial owner of the interest and carrying on a bona fide banking business.
9. 5% if interest is received by a bank, or a similar financial institution.
Stabilization Certificate

Stabilization certificate terms for investment projects in mining, heavy industry, infrastructure sectors

<table>
<thead>
<tr>
<th>Investment amount (MNT in billions)</th>
<th>Term of stabilisation certificate (years)</th>
<th>Investment term (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ulaanbaatar region</td>
<td>Central region</td>
</tr>
<tr>
<td>30-100</td>
<td>5</td>
<td>6</td>
</tr>
<tr>
<td>100-300</td>
<td>8</td>
<td>9</td>
</tr>
<tr>
<td>300-500</td>
<td>10</td>
<td>11</td>
</tr>
<tr>
<td>Above 500</td>
<td>15</td>
<td>16</td>
</tr>
</tbody>
</table>

Stabilization certificate terms for investment projects in all others sectors

<table>
<thead>
<tr>
<th>Investment amount (MNT in billions)</th>
<th>Term of stabilisation certificate (years)</th>
<th>Investment term (years)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Ulaanbaatar region</td>
<td>Central region</td>
</tr>
<tr>
<td>10-30</td>
<td>5-15</td>
<td>4-12</td>
</tr>
<tr>
<td>30-100</td>
<td>15-50</td>
<td>12-40</td>
</tr>
<tr>
<td>100-200</td>
<td>50-100</td>
<td>40-80</td>
</tr>
<tr>
<td>Above 200</td>
<td>Above 100</td>
<td>Above 80</td>
</tr>
</tbody>
</table>

Stabilization certificate details

- Name of a legal entity holding a stabilization certificate;
- State registration and registry number of a legal entity holding a stabilization certificate;
- Name, the state registration and registry number of a legal entity;
- Name of an implemented investment project;
- Date of issuance, and duration of the stabilization certificate;
- Rates of the taxes stabilized by the stabilization certificate.

Documentation list for the application for a stabilization certificate

- Statement by the applicant on the fulfilment of all requirements under the Investment Law for a manufacturer;
- Brief introduction of the company, state registration certificate;
- Information on new techniques and technology;
- Environmental impact assessment;
- Feasibility study.
At PwC Mongolia, our purpose is to build trust in society and solve important problems.

We are a member of the PwC network of firms, which operates in 158 countries around the world and employs more than 250,000 people. Our people throughout the network are committed to delivering the highest standards of quality in relation to the assurance, advisory, tax and legal services we deliver.

PwC Mongolia established an office in Ulaanbaatar city in 2010.

Our team of around 100 staff have a thorough understanding of the economy in which they work and have an in-depth knowledge of Mongolia’s policies and procedures covering areas such as taxation, investment, regulatory matters, accounting and mergers and acquisitions.

We have built strong relationships with key businesses in Mongolia.
Over the past 10 years of operation, PwC Mongolia has committed to driving sustainable growth. We use our knowledge, vast experience and innovative approach to develop practical advice and solutions that help our clients achieve their goals and unveil new opportunities for growth.

**Industry insight**

Our teams are organized by business area to provide focused support on issues specifically to any given industry.

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**Our services**

PwC Mongolia provides industry-focused assurance, tax, legal and advisory services to both local and international entities of all sizes and across all sectors of the economy. Our multidisciplinary practice allows us to provide unrivalled level of support to our clients.

Discover the benefits we can bring to you – whatever the size of your organization – in the following areas: Audit & assurance, Tax and Legal, Advisory and Academy.
Audit and Assurance

Audit services
- Audit of financial statements in accordance with IFRS/US GAAP
- Audit of statutory financial statements – Format A
- Audit of Group financial reporting packs

Non-audit assurance services
- Process assurance services
- Accounting and reporting advisory
- Review of internal controls

Risk assurance services

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Risk assurance services

IT risk and assurance
- Consulting on IT risk and governance
- Project, data assurance
- Consulting on information security
- Consulting on ERP controls and assurance
- Business controls advisory
- Review of business controls
- Design of controls and effectiveness testing

Business resilience
- Consulting on risk management, regulatory compliance, fraud risk and controls, business continuity

Performance Assurance
- Third party assurance using recognized standards e.g. AE3402/SSAE16

Advisory

- Diagnostic review & implementation of recommendations with regards to anti-money laundering (AML), anti-bribery, foreign account tax compliance act (FATCA)
- Operational efficiency and branch organization
- Consulting on risk management and Basel
- Design and implementation of environmental & social risk management system (ESMS)
- Support in setting up custody business
- Consulting on IFRS, including IFRS gap analysis
- Corporate governance reviews
- Reduction of reporting lead time (Smart close)
- Design of performance management systems (KPIs)
- Forensic reviews
- IPO & Bond listing
- IPO readiness reviews
- Complex IT Audit
- Data & Analytics
- IT system selection
- IT project management
- Enterprise Architecture review, design, optimization
- Financial & Tax Due Diligence
- M & A advisory

Tax

Payroll services
- Assistance with payroll calculations, payment wire requests
- Preparation and filing of payroll tax returns
- Preparation of individual pay slip
- Initiation of related bank payment orders

Tax compliance
- Preparation and filing of corporate tax returns
- Preparation and filing of personal tax returns

Accounting services
- Assistance with accounting/bookkeeping
- Preparation and filing of statutory financial statements

Tax consulting services
- Consulting on general matters related to Mongolian tax legislation, local and international tax structuring, tax advice on inbound and outbound investment, structuring EPC contracts, etc.

Pay Well: PwC Compensation survey
Transfer Pricing
Secondment services
Assistance with statutory tax audit
Tax dispute resolution services

Legal

- Market entry assistance
- Employment law
- General Corporate and Commercial Services
- Mergers and Acquisitions, LDD, transaction support
- Legal compliance /AML, HSE/
- Company Secretarial Services
- Legal health checks
- Immigration
- Data protection
- Regulatory assessments
- Liquidation assistance

Academy

- Technical seminars: IFRS, Financial and management reporting improvement, Corporate governance, Performance management, ACCA, taxation, employment law and various regulatory matters
- Business skills
- Executive coaching and Leadership program
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