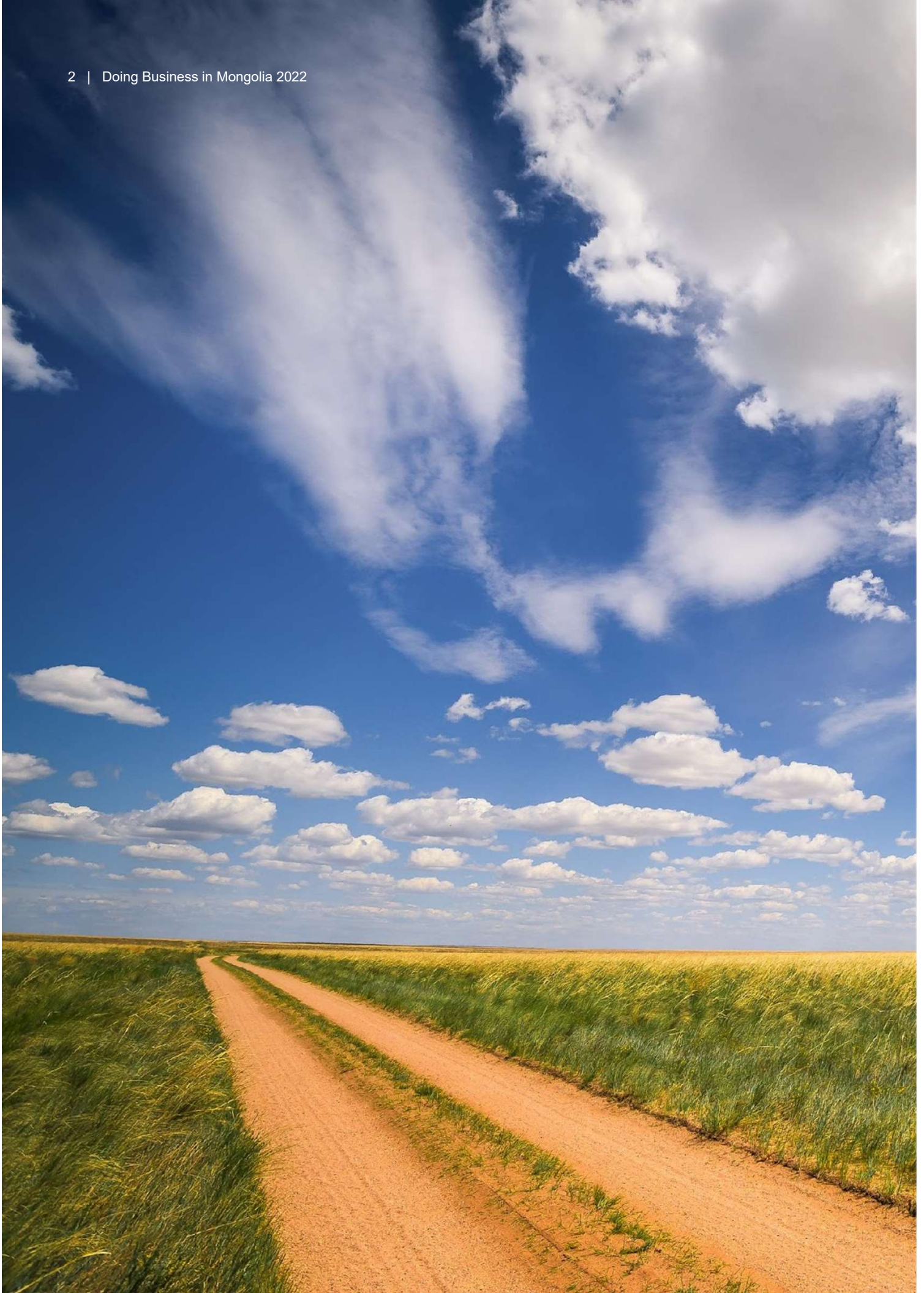




Doing Business in Mongolia 2022

**A reference guide for entering
the Mongolian market**

www.pwc.com/mn



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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.

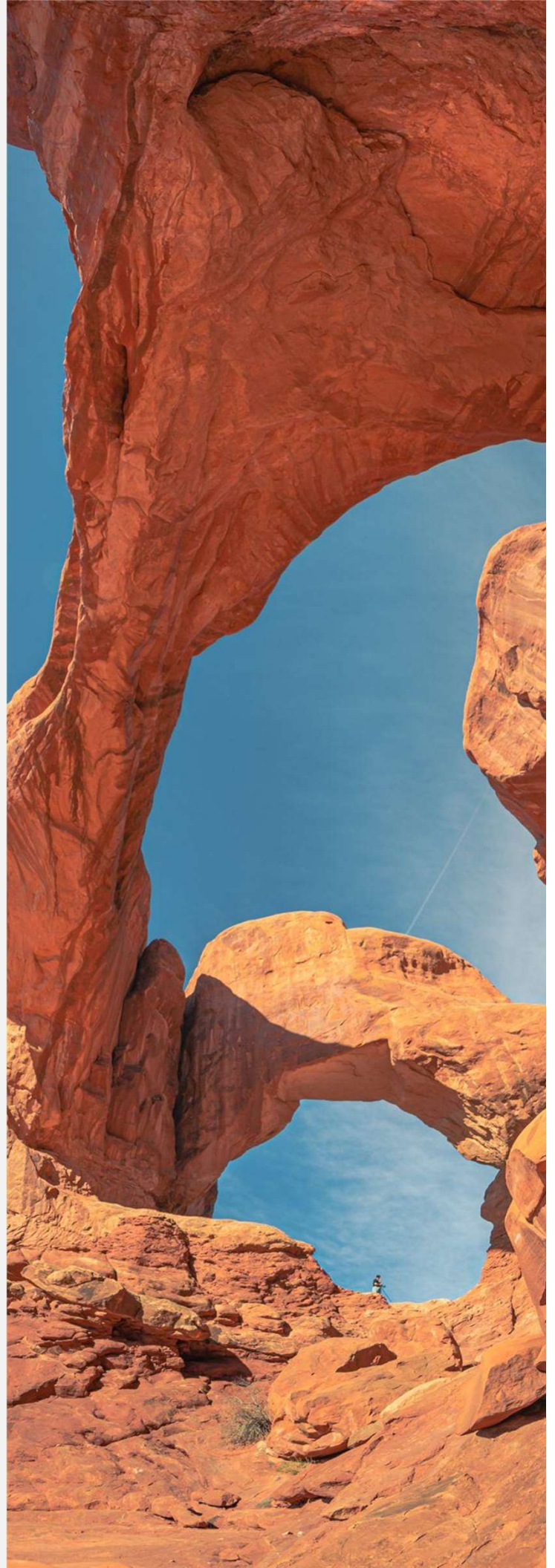
Mongolia has played a significant role in shaping today's world. The country is a vibrant democracy and has witnessed remarkable economic growth by trebling its gross domestic product per capita in real terms over the last 30 years. With a very young and highly literate population, and vast natural resources, 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 and updated until the end of 2022 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, tax and legal advice.

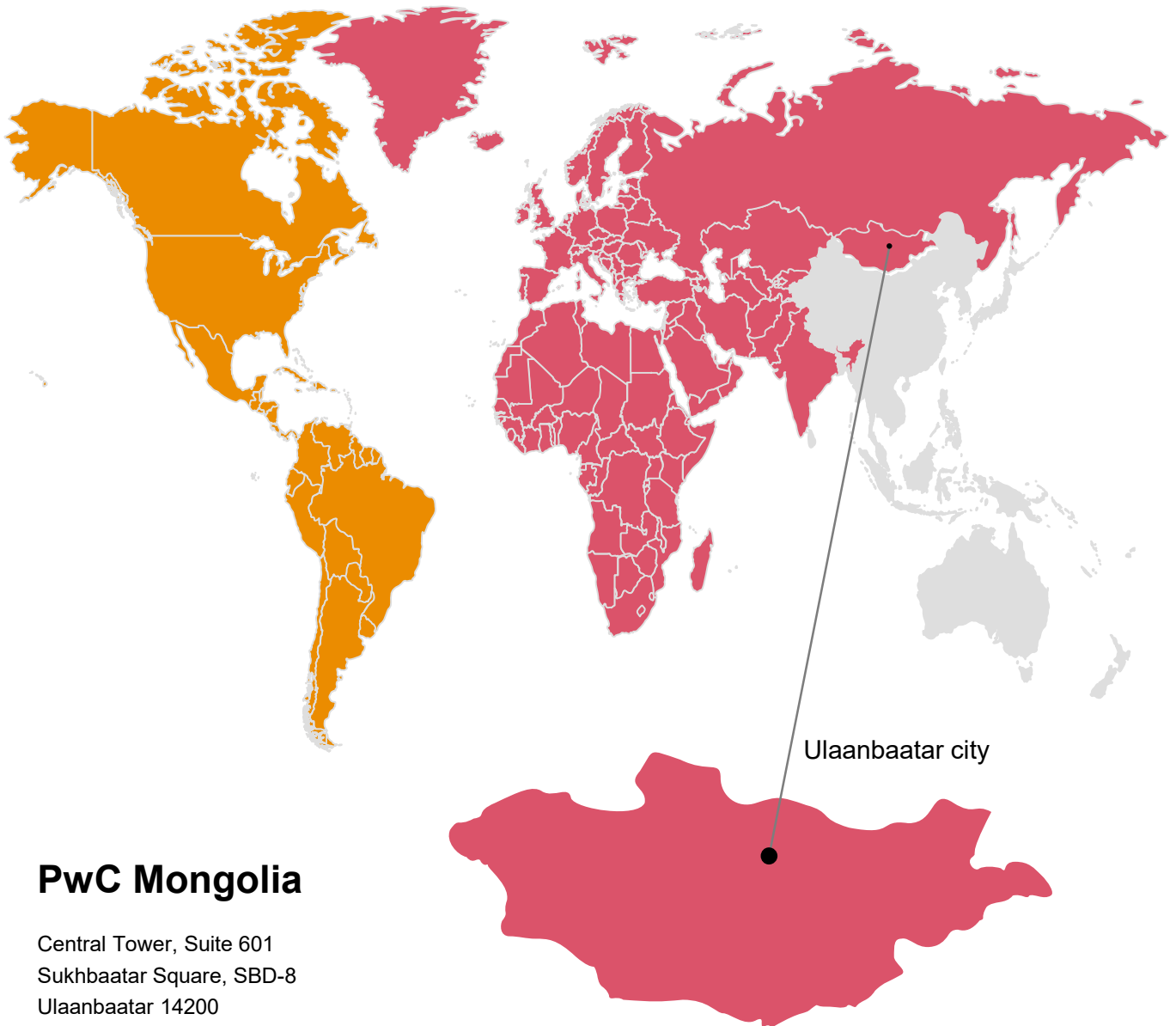
If you need additional information on doing business in Mongolia, please do not hesitate to contact us in our office in Ulaanbaatar or through your nearest PwC office.

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

Shaukat Tapia
Country Managing Partner &
Assurance Leader



Office location in Mongolia



PwC Mongolia

Central Tower, Suite 601
Sukhbaatar Square, SBD-8
Ulaanbaatar 14200
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.

Economic environment

Mongolia's economic grew by 1.4% in 2021, after a contraction of 4.4% in 2020. According to World Bank projection, economic growth is expected to be modest at 2.5% in 2022 due to border restrictions with China.

Despite the commodity price surge favorably reflecting Mongolia's export, China's further containment measures are resulting in a slow growth for the Mongolian economy, where exports of goods and services to China makes up 82.6% of the total.

Over the medium-term, economic growth is expected to reach 6.0% in 2023-2025, supported by Oyu Tolgoi's underground operation commencing during H2 2023 and the New Revival Policy implementations of Port, Energy, and Industrial Revival strategies.

Recent economic highlights

- Mongolia's economy faces more uncertainty tilted to the downside due to further border restrictions with China.
- Overall tighter global financing conditions could make it more challenging for Mongolia to refinance large external bonds due in 2023.
- After an accommodative monetary policy during 2021, the monetary policy stance is expected to tighten amid the sharp rise in inflation.

Key drivers of the economic growth in 2021:

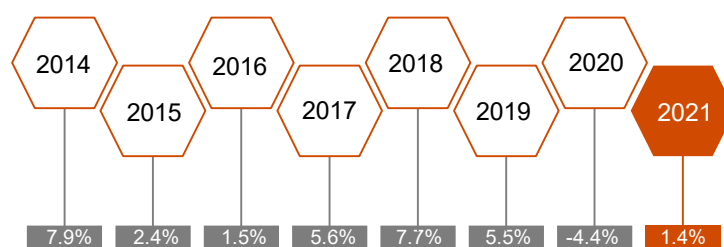


Service – reflecting gradual relaxation of domestic COVID-19 restrictions



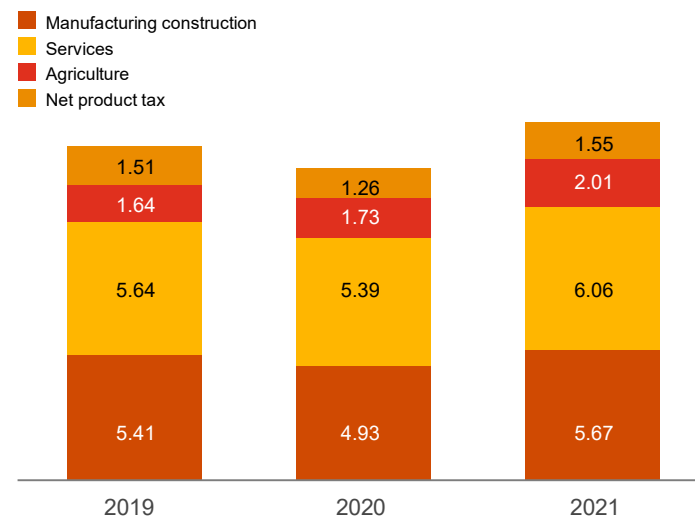
Mining – strong rebound of coal mining in Q1 which dissipated during the remainder of the year

GDP Growth (%/year)



(Source: nso.mn. National Statistics Office of Mongolia, 2021).

GDP (mln USD)



Trade

Mongolia has been a member of the World Trade Organization (WTO) since 1997 and applies MFN tariffs for WTO member countries.

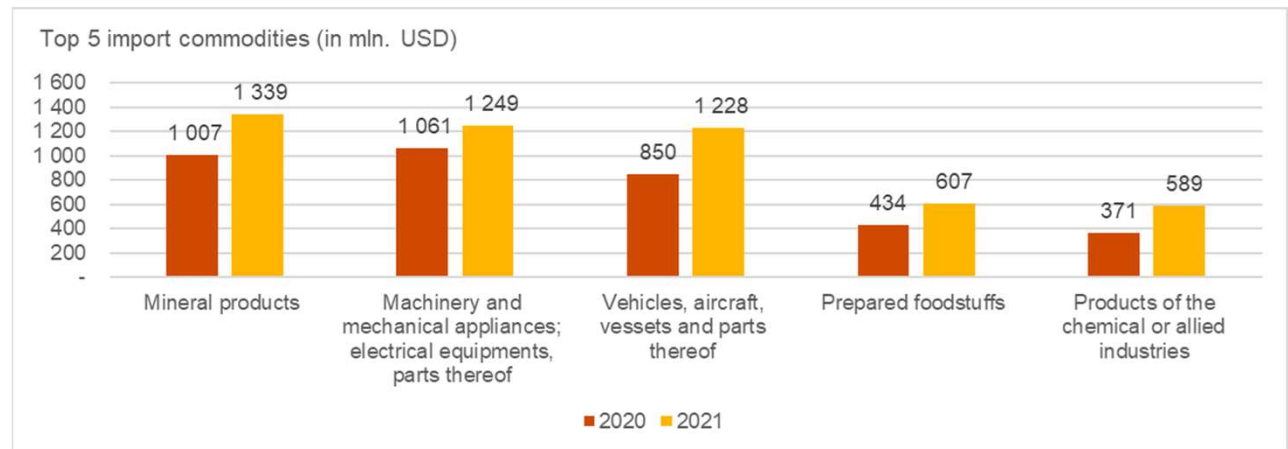
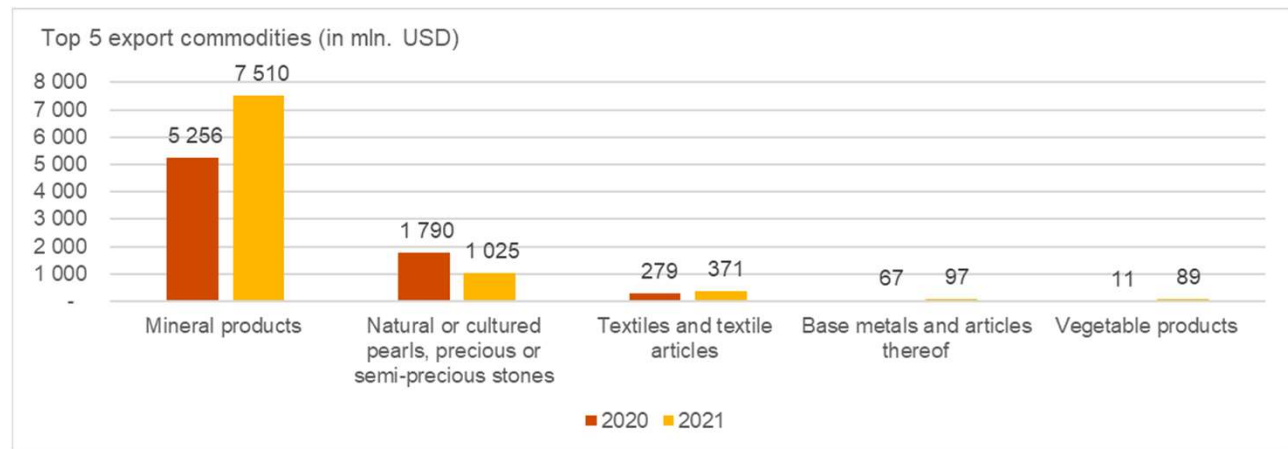
Mongolia and Japan signed Japan-Mongolia Economic Partnership Agreement (EPA) in 2015 that entered into force on 7 June 2016. The EPA contains 11 chapters covering areas of trade in goods and services, customs procedures and trade facilitation, electronic commerce, investment protection, movement of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

Mongolia and Canada signed a Foreign Investment Promotion and Protection Agreement (FIPA) in 2016 that entered into force on March 7, 2017.

Mongolia and the United States signed a Bilateral Investment Treaty (BIT) the USA - Mongolia Agreement on Transparency in Matters Related to International Trade and Investment in 2017.

Mongolia's ratification of the Asia-Pacific Trade Agreement (APTA) took place on 12 December 2019, and it has entered into force for Mongolia on 1 January 2021.

As of current, Mongolia concluded tax treaties with 26 countries to avoid double taxation.



Total exports (goods)	In mln. USD	Total imports (goods)	In mln. USD
YE 2021	9,241	YE 2021	6,845
YE 2020	7,576	YE 2020	5,299
YE 2019	7,620	YE 2019	6,128

Foreign trade

China remains the top country in terms of export of goods for Mongolia (USD 7,633.2 million), making up 82.6% of the total export of physical goods as of 2021 Year end. Placed at second, Switzerland is the destination that makes about 9.4% of total exports, and Singapore being third with 2.8% share of exports.

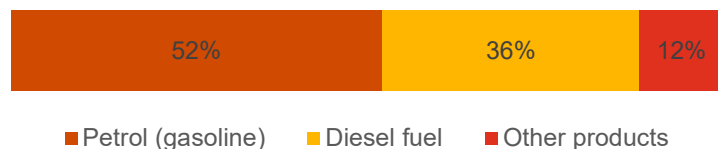
In the case for physical goods import, 36.4% of goods imported in 2021 are from China (USD 2,490.6 million). The next country in terms of imported goods is the Russian Federation, taking 28.6% of total imported goods. Japan make up 6.6% of total imports as of 2021 Year end. (Source: Mongolian Customs Database, 2021).

According to the Mongolian Customs Database, during 2021, majority of total trade turnover comprised of mineral/mining products (81.3% of total exports; 19.6% of total imports). Further breakdown of exported mineral products is presented in the following table.

Export mineral products	Amount in mln USD
Copper concentrate	2,899.9
Coal	2,774.1
Iron ore	952.2
Crude oil	273.4
Zinc ore concentrate	176.4
Fluorite	144.0
Molybdenum ore concentrate	82.4

Meanwhile, petroleum products make up 85% of all imported mineral products in 2021, amounting USD 1,131.8 million for 1,764.1 thousand tons.

Oil and related products



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.

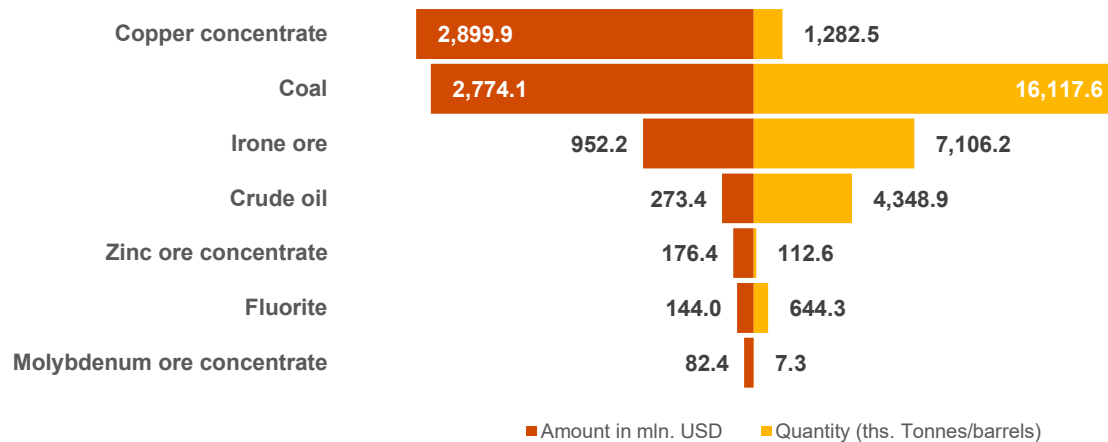
Mining sector growth will continue to accelerate in line with improving commodity prices, foreign mining investment and Mongolia's proximity to China, a major global consumer of mining products.

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 7 commodities produced in Mongolia as of the end of 2021.

(Source: Mongolian customs database, 2021)

Export of mineral products as of 2021 Year End



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 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)

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

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 in 2023.

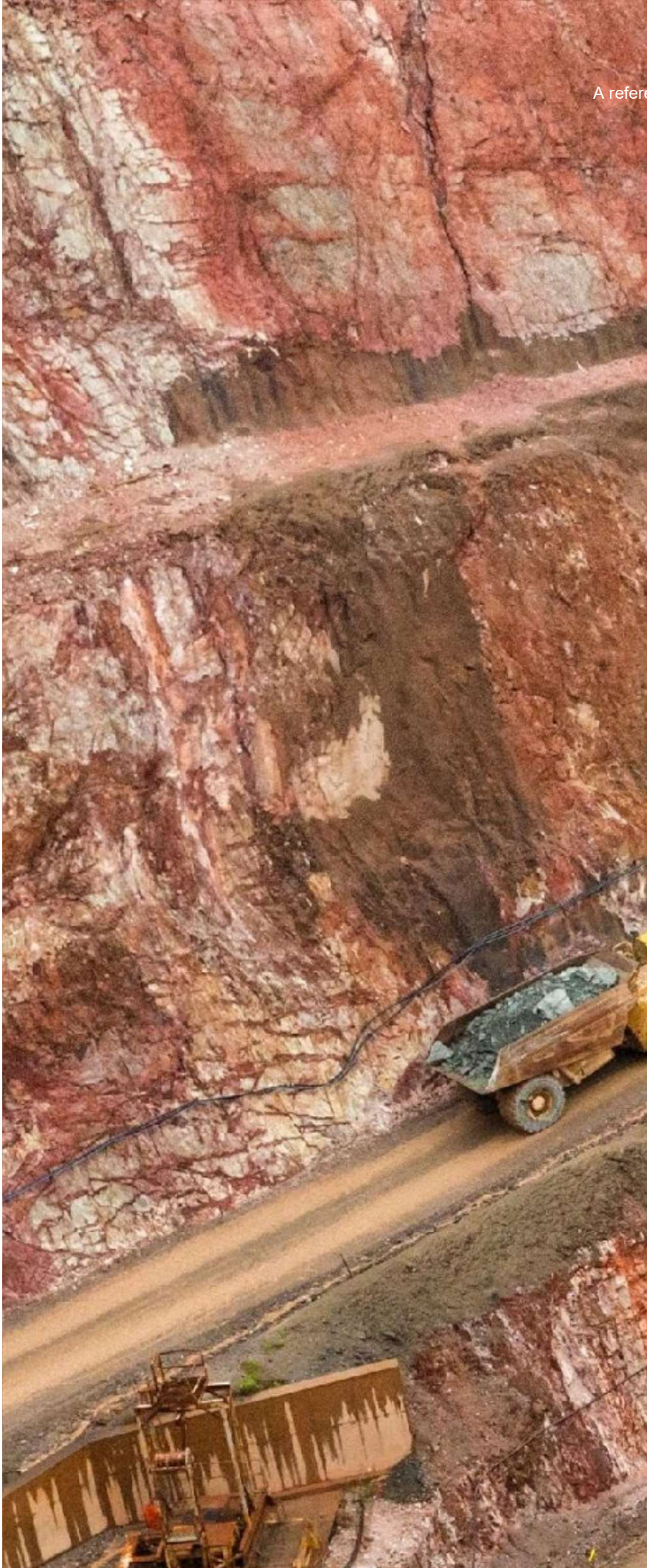
When Oyu Tolgoi is fully operational, it is expected that Mongolia GDP will grow by approximately 35 percent*.

Oyu Tolgoi's in-country spending passed USD 216 billion as of end of 2021*.

Oyu Tolgoi produced 139k tonnes of copper in concentrate and 435k ounces of gold in concentrate in 2021. The company paid USD 683 million in taxes to the country's budget in 2021*.

As of the end of 2021, over 96.5% of Oyu Tolgoi's workforce of 14,400 were Mongolian nationals with more than half working on the development of the underground mine*

* attributable to www.ot.mn





Renewable energy in Mongolia

Mongolia has a vast amount of renewable energy sources. According to International Renewable Energy Agency (IREA), 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 9,780.78 million kwh, 90.9% of which was produced by coal-fired thermal power plants while the rest was produced by renewable energy resources in 2021. From 2014 to 2019, the total energy supply from renewable energy has grown by 30.5% according to IREA. 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.

Within the New Revival Policy, Ministry of Energy will be carrying out Renewable Energy Enhancement Project in the Western Region where four Solar power plants with 35MW capacity and two Wind farms with a total capacity of 15MW. Moreover, Erdeneburen 90MW Hydro power plant project is under development and is planned to be completed in 2027. These projects will enable five Western provinces' energy consumption to be fully supplied with renewable energy.

As renewable energy sector grows, the need for battery energy storage systems (BESS) are needed for an efficient energy usage. In 2020, Asian Development Bank has approves USD 100 million loan to Mongolia to install 125MW BESS to accelerate the adoption of renewable energy. This project, due for completion in 2024, will enable 44 gigawatt-hours of clean peaking power annually.

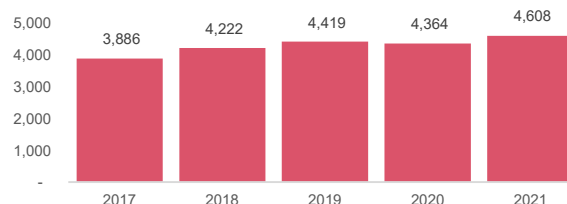
Policy	The State Energy Policy approved in 2015 targets the national renewable energy capacity to 20% of the total installed energy capacity by 2020 and 30% by 2030.
Geographic	Suitable geographic location for wind and solar energy; because; i) wind power classification of Good-to-Excellent wind power 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/m ² with solar intensity of 4.3-4.7 kWh/m ² per day.
Feed-in	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

Information and Communication Technology (ICT) landscape

Rising digital trends

Based on the reports published by Communications Regulatory Commission, the latest number of mobile phone subscribers is approximately 4.6 million, compared to latest census of 3.4 million of Mongolians. The discrepancy is due to some people having 2 or 3 mobile subscriptions at the same time.

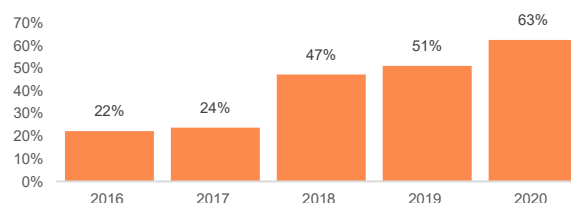
Number of users, Mobile (in 000's)



Source: Communications regulatory commission of Mongolia, 2021

Although the number of internet users has been growing steadily in the recent years, COVID-19 revealed the country's weaknesses in the network connectivity. Thus Mongolia's aim to become a Digital Nation, the long-term development policy, will start by improving the network infrastructure.

Individuals using the Internet (% of population)



Source: World bank, 2021

In June 2022, World bank has approved a credit of USD 40.7 million for a project to improve Mongolia's legal and regulatory environment for cybersecurity and develop digital economy. In addition, the project will aim to improve people's digital literacy.

In 2021, the total revenue of licensed companies in the ICT sector reached MNT 1.6 trillion, up by 17.6% from the previous year and the total investment towards technical and quality improvement was around MNT 278 billion which is 14.1% higher than 2020.

On 17 December 2021, the Parliament of Mongolia passed the Law on Personal Data Protection (the "PDPL") effective from 1 May 2022. The PDPL establishes broader and more stringent regulatory regimes surrounding personal data in Mongolia, compared to its preceding law the Law on Personal Secrecy (1995). Moreover, the Cybersecurity law (2021), Public Information Transparency Law (2021), and Electronic Signature Law (2021) (each came into force from 1 May 2022) are introduced to create a comprehensive framework governing cybersecurity and data privacy protection in Mongolia.

Tech startups

The development of fintech startup companies has accelerated in the recent years followed by a success of a few fintech companies. And with a growing number of smart phone users, fintech offers a convenient access to financing and payment solutions.

According to JICA's survey, Mongolian startup ecosystem is estimated to have a total value of MNT 452 billion in 2021. Within the surveyed companies, Fintech companies have the largest revenue of MNT 36.9 billion followed by Advertising and marketing tech and Education tech sector startups with a revenue of MNT 9.7 billion and MNT 3.4 billion, respectively. Access to funding is the biggest challenge, especially in the first stages of development where the primary source of financing is the founder's personal savings.



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 financial sector is fully dominated by banking sector representing over 93.3% of total assets as of 2020, while other sectors, such as insurance, non-banking financial institutions, leasing companies, pension and investment funds are relatively underdeveloped. The sector is highly concentrated, with five largest banks holding 93% of total sector assets. These commercial banks are all rated by the international rating agencies.

The Banking Law has been amended in 2021 requiring that a) ownership by a shareholder and their related parties will not exceed 20 per cent by 31 December 2023; and b) systematically important banks must be publicly listed on the stock market within 30 June 2023. As at the end of 2022, IPOs of Golomt Bank and the state owned State Bank were completed while the Financial Regulatory Commission approved the IPO of Khan Bank.

Market share of top 5 banks by total assets*

No.		Total assets In mln. USD /approx./
1	Khan bank	4,725
2	Trade and Development bank	3,351
3	Golomt bank	2,806
4	State bank	1,331
5	Xac bank	1,228

(Source: ihsmarket.com. Banking Risk - Mongolia, 2021., Connect by S&P Global)



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 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.



05 | systematically important banks
05 | mid and small tier banks
01 | state-owned bank

93 | concentrated at the 5 largest banks:
• Khan bank,
• TDB,
• Golomt bank,
• State bank
• Xacbank

Capital markets

The Mongolian Stock Exchange (MSE), established in January 1991, is the sole stock exchange in Mongolia.

There are currently around 178 companies listed on the MSE.

Categories	No. of companies
Category I*	22
Category II*	41
Category III*	115
Total	178



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.

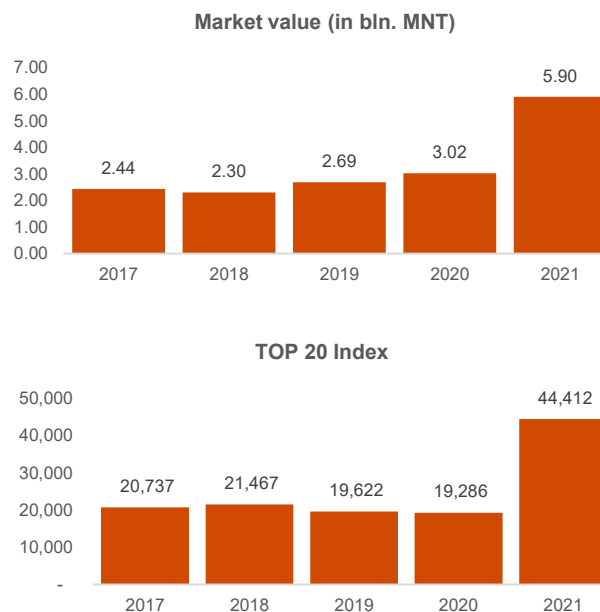
Category III – companies that have offered shares through private placement, to sophisticated investors. Mainly, these are high risk project companies, small and medium enterprises (with primarily mining exploration and operation licenses).

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.

In 2021, the capital market has grown significantly where market value has increased to MNT 5.9 billion by 95% from MNT 3.0 billion in 2020. Moreover, TOP 20 index was up by 130% from the previous year, reaching 44,412 points. As a result of Bank of Mongolia's expansionary stance in 2021, banks' interest rates have fallen to a historical low; thus making capital market investments more attractive to the public.

The capital raised in the primary market has increased rapidly, reaching MNT 842 billion as compared to only MNT 15 billion in 2020. This was mainly due to private companies' interest to raise capital by issuing bonds as commercial banks' limitation in lending and the requirement to pledge real estates as collateral.



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 11.3% total asset growth in 2021. At present, insurance sector consists of 17 insurance companies: 15 general insurance, 1 life insurance company and 1 reinsurance, 57 insurance broker firms, 25 insurance loss adjuster firms, 36 professional actuaries and 2,403 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.

Foreign insurance companies will need to comply with a number of requirements in order to establish its branch or a representative office in Mongolia including but not limited to being registered in Mongolia, having at least two years operation in their home country, ranked by an internationally accepted ranking organization, having an amount of at least 1 billion MNT deposited into their account with a Mongolian commercial bank etc.

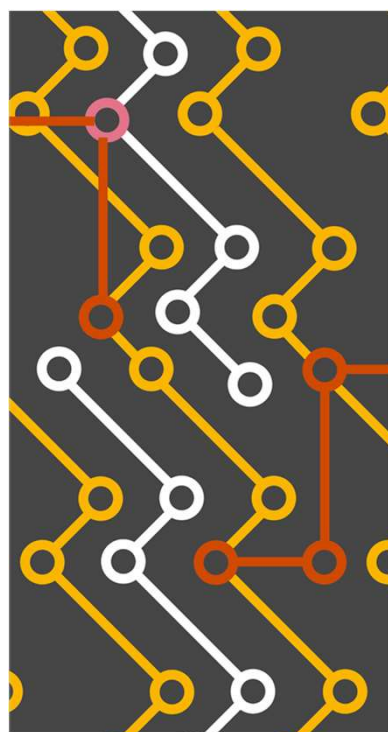




Starting a business

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 (LERO): 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 and where applicable social insurance authority.
- The estimated minimum statutory cost of setting up a foreign invested limited liability company or a representative office in Mongolia may range between USD 230 – 550 (excluding a minimum compulsory share capital)
- Establishing of foreign company generally 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 working 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.

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



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.

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

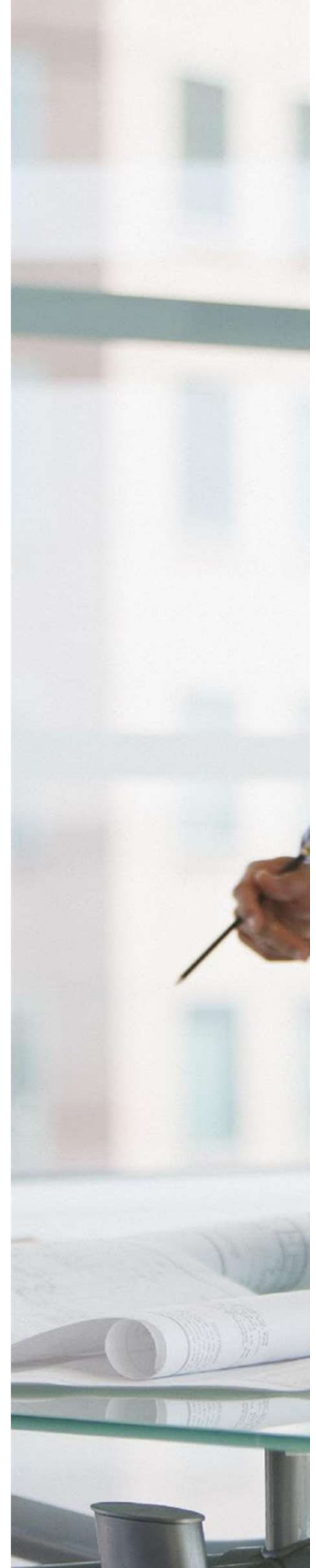
According to the Law on Accounting (2015), annual accounting and reporting period follows the calendar year. Entities should file their annual financial statements with the relevant state authorities by 10 February of the following year. In case of the consolidated financial statements, the submission 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').

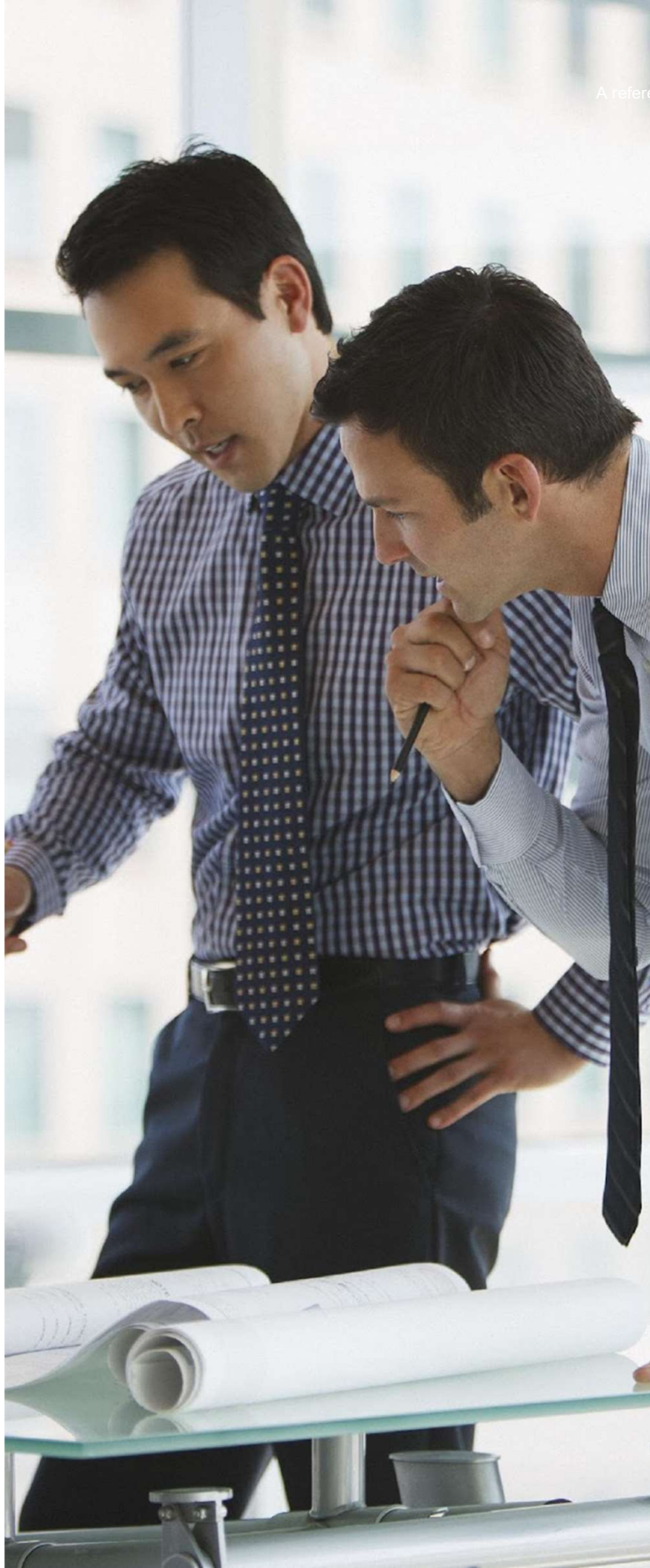
The Law on Accounting further requires accounting books and records to be executed in Mongolian language and be reported in MNT. USD is an alternative currency to MNT for entities as their functional currency only on receipts of a fund upon approval from the Ministry of Finance. Businesses that must 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.





Labour relations



Consideration for the investors:

- Employer must conclude an employment agreement with an employee in a written form. It is mandatory to conclude an indefinite employment agreement with exception to cases set out in the Labour Law.
- For hiring foreign personnel/employees, the Government of Mongolia annually sets number and percentage of foreign employees by the sector of economic activities depending on the labour supply and demand.
- Companies must pay work placement fee for per foreign employee in a preliminary manner, when they hire a foreign personnel/employee.

Labour market

According to the National Statistics Office, Mongolia's unemployment rate was 7.8 % by the second quarter of 2022. Currently, there are approximately 98,500 unemployed people. About 58.9% 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

Labour relations in Mongolia are regulated by the Labour Law of Mongolia dated 2 July 2021 ("Labour Law").

In accordance with the Labour Law, an employer shall conclude an employment agreement with an employee in writing and deliver one copy of the agreement to the employee. The employment agreement shall be either for a fixed-term or indefinite term. It is mandatory to conclude an indefinite employment agreement with exception to apprenticeship, internship, probation period, seasonal jobs, temporary replacement of an employee on leave, temporary positions, and project works. If the total term of the employment agreement including original term and term extension exceeds 2 years, the agreement shall be deemed to be concluded for an indefinite term.

Trade unions and collective agreements

Trade unions are visible generally in health, mining and energy sector. A collective agreement may be initially concluded on voluntary basis between an employer and the representatives of employees to ensure labour rights and legal interests more favorable than those guaranteed by law and to regulate matters that are not directly regulated by the Labour Law. A collective agreement becomes binding upon its registration with the respective local administrative bodies in charge of employment matters where the employer has its principal place of business.

The Labour 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 minimum wage amount as determined by the tripartite National Labour Committee of Mongolia. In May 2022, the tripartite National Labour Committee increases the minimum wage to MNT 550,000, effective from 1 January 2023. The Tripartite National Labour Committee is composed of the Cabinet, the Nationwide labour 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 632,500 per month effective from 1 January 2023. Employment agreement 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. Overtime is subject to additional pay or time off in lieu. Details regarding work regime, such as the start and end of the workday, time for meals and other breaks, may be determined by internal labour regulations, collective agreements or employment agreements.

An employee is entitled to annual paid leave, minimum of 15 working days. For people with disability and people under the age of 18 years old, the minimum annual leave is 20 working days.

Equal opportunities

The Labour Law prohibits all types of workplace harassment and gender-based discrimination in employment and requires equal salary for work of equal value. Furthermore, when recruiting an employee, an employer is prohibited to ask questions or collect information that are irrelevant to an employee's job duties.

The Labour Law requires that legal entities with employees of 25 or more must employ a person with disability equal to 4% of total employment positions. Otherwise, employers are required to pay a monthly fee equal to a minimum wage per vacancy for a person with disabilities as an alternative option.

Termination of employment

Grounds for the termination of an employment agreement are provided in the Labour Law.

Employers may not cancel employment agreements at their will, but the agreement may be terminated under the conditions set forth in that employment agreement with special condition. In the case that an employer initiated 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%-14.5% social insurance premiums. 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 632,500 effective from 1 January 2023. Below are details of the social insurance premiums for 2022:

Type of insurances	Employer	Employee
Pension	8.5%	8.5%
Benefit	1.0%	0.8%
Health	2%	2%
Industrial accidents and occupational diseases	0.8% - 2.8%	-
Unemployment	0.2%	0.2%



Public Holidays

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

January 1	New year
3 days between the end of January and early March (dates vary every year depending on the Lunar calendar)	Tsagaan Sar (Lunar New Year)
March 8	International Women's Day
June 1	Children's Day
July 10-15	Naadam (Mongolian national holiday)
1 day in November (dates vary every year depending on Lunar calendar)	Chinggis Khaan Memorial Day
November 26	Proclamation Day
December 29	Independence Day
1 day in June (dates vary every year depending on Lunar calendar)	Buddha Day

Foreign personnel/employees

Foreign citizens to stay and work in Mongolia must obtain several key permits: A work permit, a residence permit and a visa. Obtaining work permits can be time-consuming, generally takes one month before the entry into Mongolia and an additional two weeks after entry. Before arriving in Mongolia, a work visa must be applied for at any Mongolian embassy. Practice varies depending on the embassy, however, a work visa will not be granted without a visa permission from the Immigration Authority.

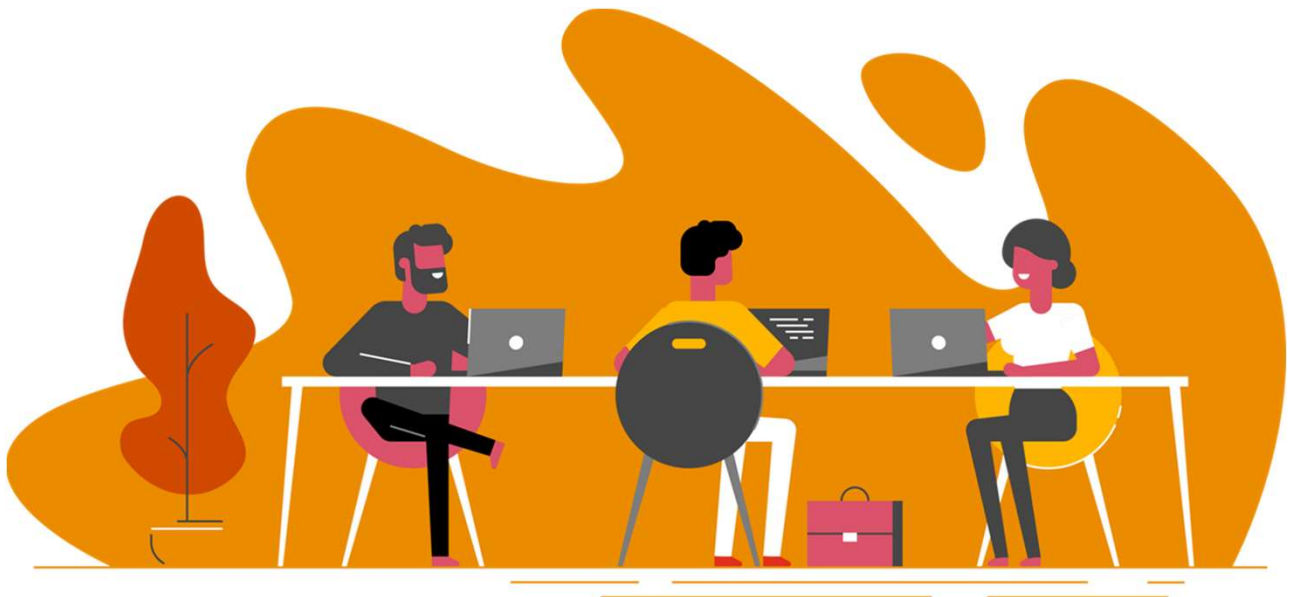
Employers must first obtain a permit to invite a foreign national provided that the employer actively searched for local employees for the position for at least 14 days. However, there are some exceptions to this requirement including that it is not required to actively search for local employees for job positions of managerial personnel or professional and technical employees. Based on the permit to invite a foreign employee, the work permit will be issued.

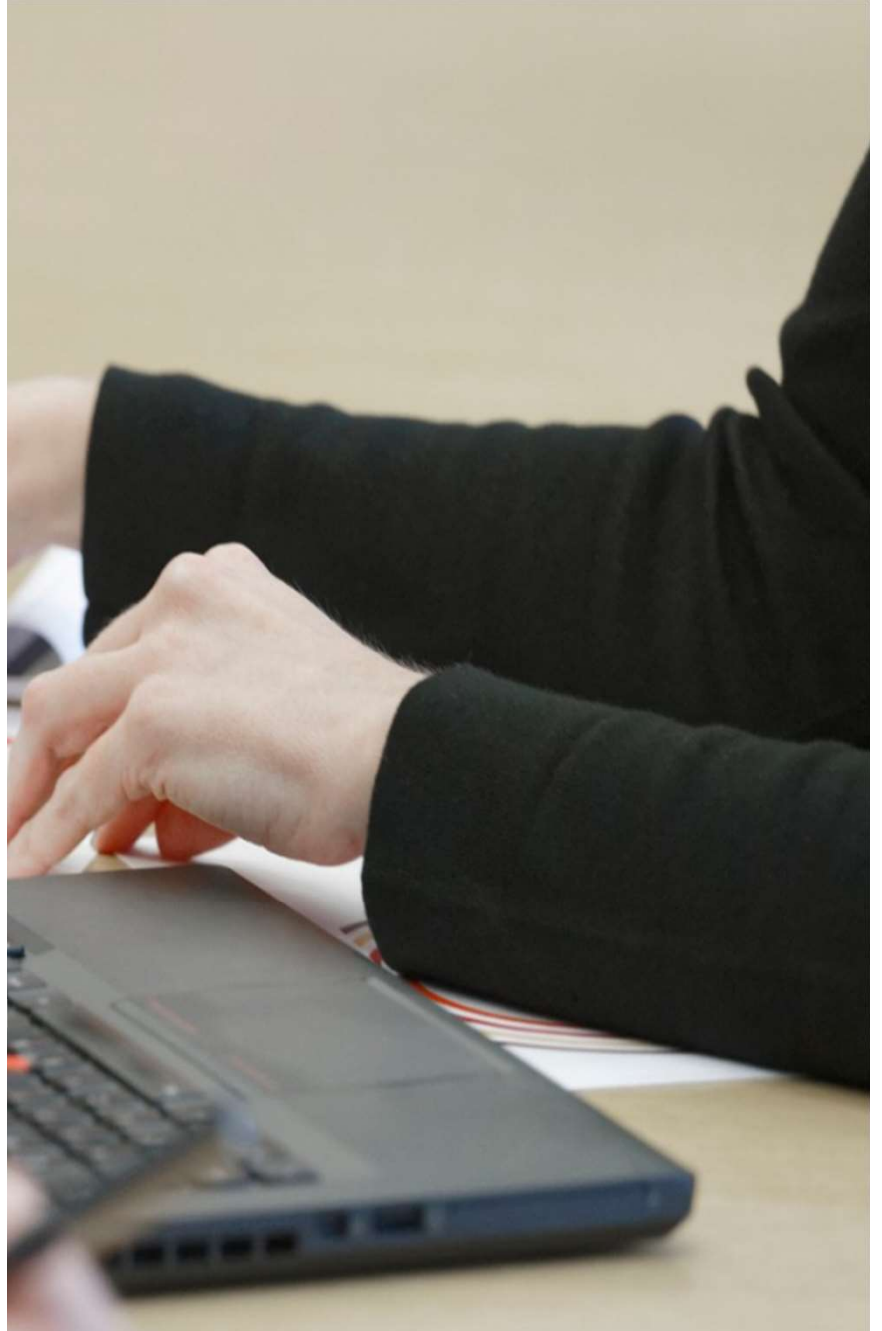
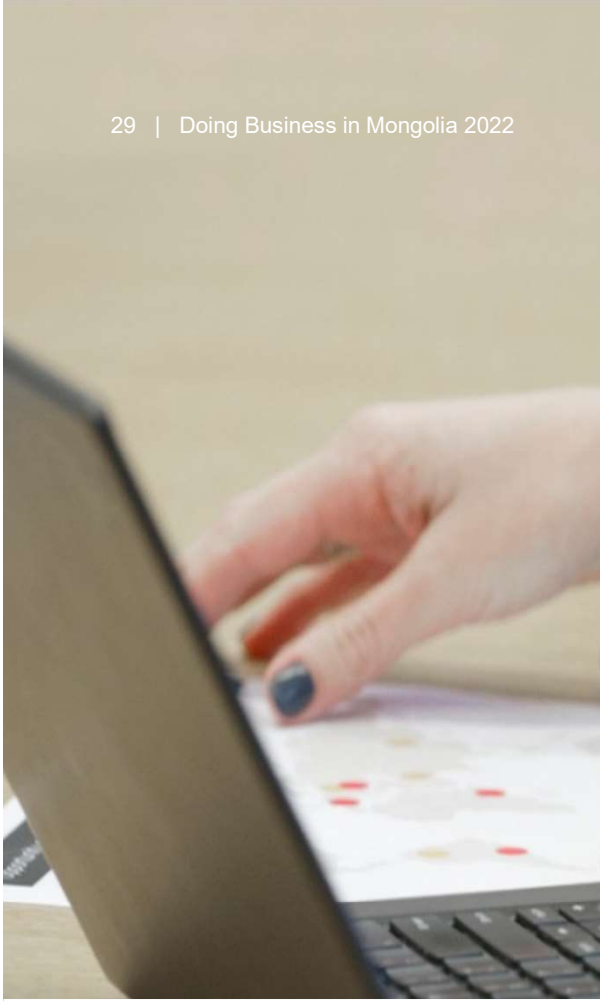
The application process for the work permit will continue after the foreign employee enters into Mongolia. Applications for both visa and work permit are filed by the employer. After entry, foreign employee must be registered within 48 hours at the Immigration Office or will face a fine of MNT 2,500,000. Moreover, a request for a residence permit must also be filed to the Immigration Office within 21 days from the date of entry.

Additionally, a workplace fee in the amount of MNT 1,100,000 (from 1 January 2023) per foreign employee must be paid in advance to the Labour and Social Welfare Authority. Also, specific job positions such as managerial personnel, executive directors, investors and chief representative officers are exempted from the workplace fee.

For every year, the Government of Mongolia sets number and percentage of foreign employees by the sector of economic activities depending on the labour supply and demand. However, in 2022, the Government did not set any restrictions on the number of foreign workers depending on the total number of local employees. Therefore, employment visas and work permits should be granted by the respective state authority to foreign nationals as long as eligibility and documentation requirements are met until the end of 2022.

Foreign citizens may own buildings in Mongolia but not allowed to own land.





Taxation

Consideration for the investors:

- Mongolia reformed its key tax laws in 2019. The laws became effective from 2020.
- 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 | ○ China | ○ Hungary | ○ Korea | ○ Russia | ○ United Kingdom |
| ○ Belarus | ○ Czech Republic | ○ India | ○ Kyrgyzstan | ○ Singapore | ○ Vietnam |
| ○ Belgium | | ○ Indonesia | ○ Malaysia | ○ Switzerland | |
| ○ Bulgaria | ○ France | ○ Italy | ○ North Korea | ○ Turkey | |
| ○ Canada | ○ Germany | ○ Kazakhstan | ○ Poland | ○ Ukraine | |

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 ownership 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:

Income	Tax rates
Dividends	10%
Royalties	10%
Interest	5%*/10%
Insurance reimbursement	10%
Gambling, betting games and lotteries	40%
Sale of immovable property (gross)	2%
Sale of rights (gross)	10%

** 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's 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".

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%. Resident taxpayer individual's income earned from the sale of shares is subject 10%PIT on a net basis unless the shares are attached with mining/land rights. Dividend, interest and royalty income are subject to 10% PIT on a gross basis.

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.

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

Source of income	Tax rate
Employment income	10%
Business and professional income	
Income from property, i.e. dividends, royalty, interest, capital gain from sale of securities/stocks	
Sale of immovable property (gross)	2%
Income from scientific, literary artistic works, inventions, product; designs and useful designs (gross)	5%
Designs and useful designs (gross)	
Income from sports competitions, art performances, and similar income (gross)	
Income from betting games, gambling and lotteries (gross).	40%

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%-14.5% social insurance premiums. 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 632,500 effective from 1 January 2023.

Below is details of the social insurance premiums for 2022:

Type of insurances	Employer	Employee
Pension	8.5%	8.5%
Benefit	1.0%	0.8%
Health	2%	2%
Industrial accident and occupational disease	0.8% - 2.8%	
Unemployment	0.2%	0.2%

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 to 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

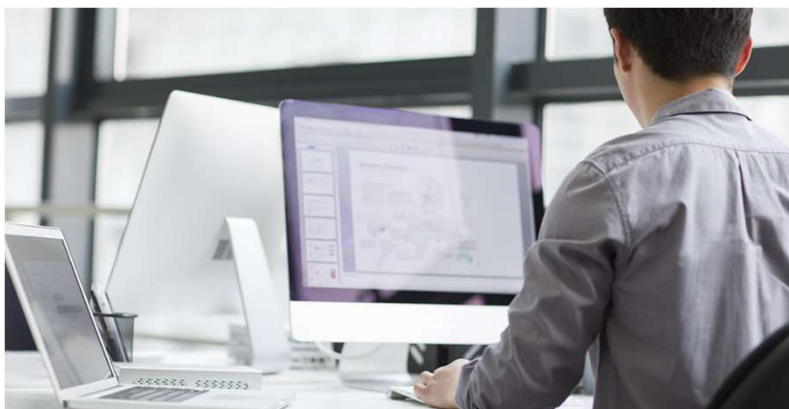
VAT shall be imposed at the earliest of the following events:

- 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 VAT-able 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.

Appendix A

Other Taxes

Tax	Tax base	Tax rate
Immovable Property Tax	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.	Tax rates range from 0.6% to 1% depending on the location of property, usage, size, market demand, supply conditions of the immovable property.
Land Fee	Mongolian entities possessing or using land based on contracts should pay annual land fee on the value of the land.	Tax rates range from 0.01% to 1.0% per hectare depending on the location, usage and size.
Air Pollution Payment	Tax is levied on the produced raw coal, used or imported organic solvents and vehicles.	Tax rates vary depending on the type and toxicity of the pollutant.
Excise Tax	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.	<p>Tax rate vary depending on type of goods.</p> <p>Exemption is possible for goods imported to FTZs.</p>
Customs Duty	<p>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.</p> <p>Export duties apply to certain exported goods such as unprocessed wool, wood.</p>	Tax rates range from 5% to 20% depending on the type of product.
Stamp Duty	<p>Stamp duties are imposed, inter alia, on the following deeds:</p> <ul style="list-style-type: none"> - 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. 	The amount of duty varies depending on the type of services involved.
Mining and Exploration License Fee	Mining license fee is determined per hectare, while exploration license fees are based on hectare and a year of exploration.	License fees vary for exploration and mining licenses.

Tax	Tax base	Tax rate
Mineral Royalty Fees	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.	<p>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%.</p> <p>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.</p>
City tax	<p>The tax is imposed on following goods and services in the capital city (Ulaanbaatar):</p> <ul style="list-style-type: none"> - 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

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

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.

1. No tax if dividends paid to the government/certain public bodies.
2. 5% if the beneficial owner is a company and directly or indirectly holds at least 10% of the capital of the company paying dividends.
3. 7% if interest is paid to a bank which is the beneficial owner of the interest and carrying on a bona fide banking business.
4. 5% if the beneficial owner is a company and directly owns at least 25% of the capital of the company paying dividends.
5. 5% if interest is received by a bank, or a similar financial institution.

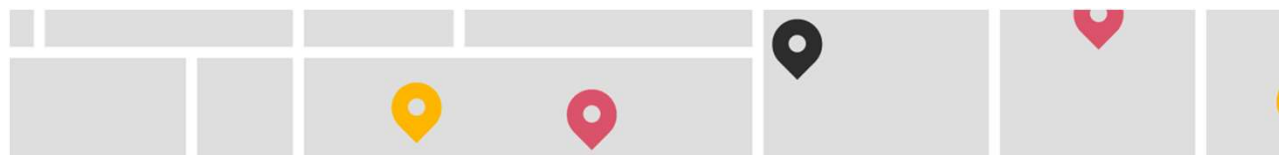
Stabilization Certificate

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

Investment amount (MNT in billions)	Term of stabilisation certificate (years)					Investment term (years)
	Ulaanbaatar region	Central region	Khangai region	Eastern region	Western region	
30-100	5	6	6	7	8	2
100-300	8	9	9	10	11	3
300-500	10	11	11	12	13	4
Above 500	15	16	16	17	18	5

Stabilization certificate terms for investment projects in all others sectors

Investment amount (MNT in billions)					Term of stabilisation certificate (years)	Investment term (years)
Ulaanbaatar region	Central region	Khangai region	Eastern region	Western region		
10-30	5-15	4-12	3-10	2-8	5	2
30-100	15-50	12-40	10-30	8-25	8	3
100-200	50-100	40-80	30-60	25-50	10	4
Above 200	Above 100	Above 80	Above 60	Above 50	15	5



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

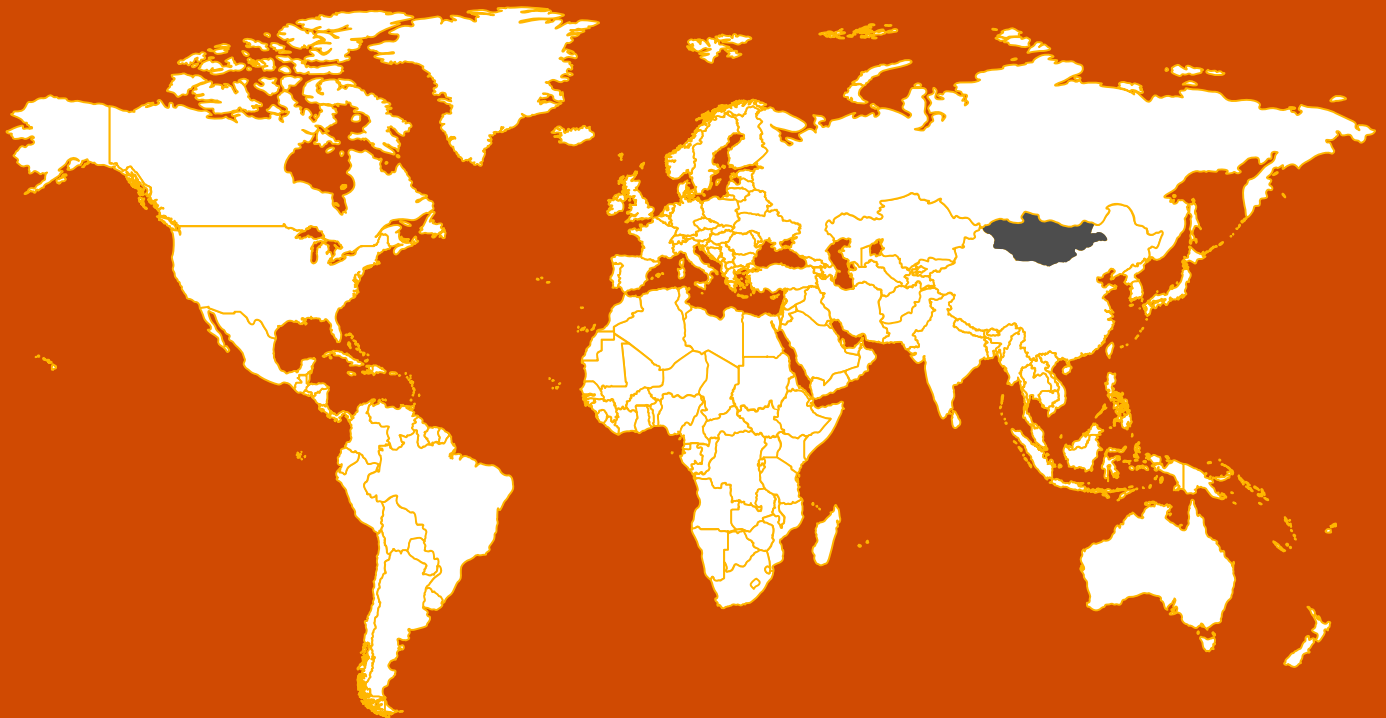
250,000
People

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 12 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.

12 Years in Mongolia
since 2010

100 Local and
expatriate staff

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 multi-disciplinary 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

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. ISAE 3402/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

For the full suite of PwC Mongolia's services, visit our website <https://www.pwc.com/mn>

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