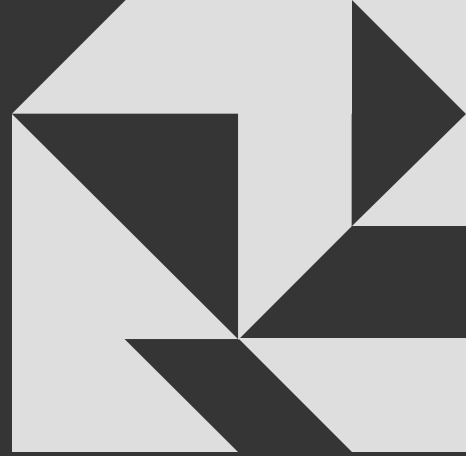


# Doing business in Mongolia 2024

A reference guide for entering the Mongolian market





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# Introduction

Mongolia has seen better than expected economic growth and updates to its investment, tax and legislation systems. The country is poised for substantial growth in the coming years. As Mongolia stands at the crossroads of ancient tradition and modern economic development, it offers unique opportunities and challenges for businesses looking to expand into this vibrant market.

Mongolia's strategic location between two economic giants, Russia and China, along with its rich natural resources, offers great opportunities for businesses. The country's vast mineral wealth, particularly in copper, coal, and gold, has fueled rapid economic growth and created a dynamic business environment.

This guide aims to equip entrepreneurs, investors, and business leaders with essential insights into Mongolia's economic landscape, legal and tax framework, and industries. Understanding these factors is crucial for navigating the Mongolian market effectively and building successful, long-lasting business ventures.

We believe that Mongolia's unique blend of tradition and progress offers a compelling proposition for businesses ready to explore new horizons. With its youthful population, evolving infrastructure, and strategic initiatives to improve the business climate, Mongolia stands out as a promising destination for global entrepreneurs and investors.

PwC has had a decade and a half 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 organization to achieve its business objectives. We hope this guide serves as a valuable resource, providing the knowledge and confidence needed to embark on successful business endeavors in Mongolia. May it inspire you to discover the potential of this remarkable nation and contribute to its ongoing journey of growth and development.

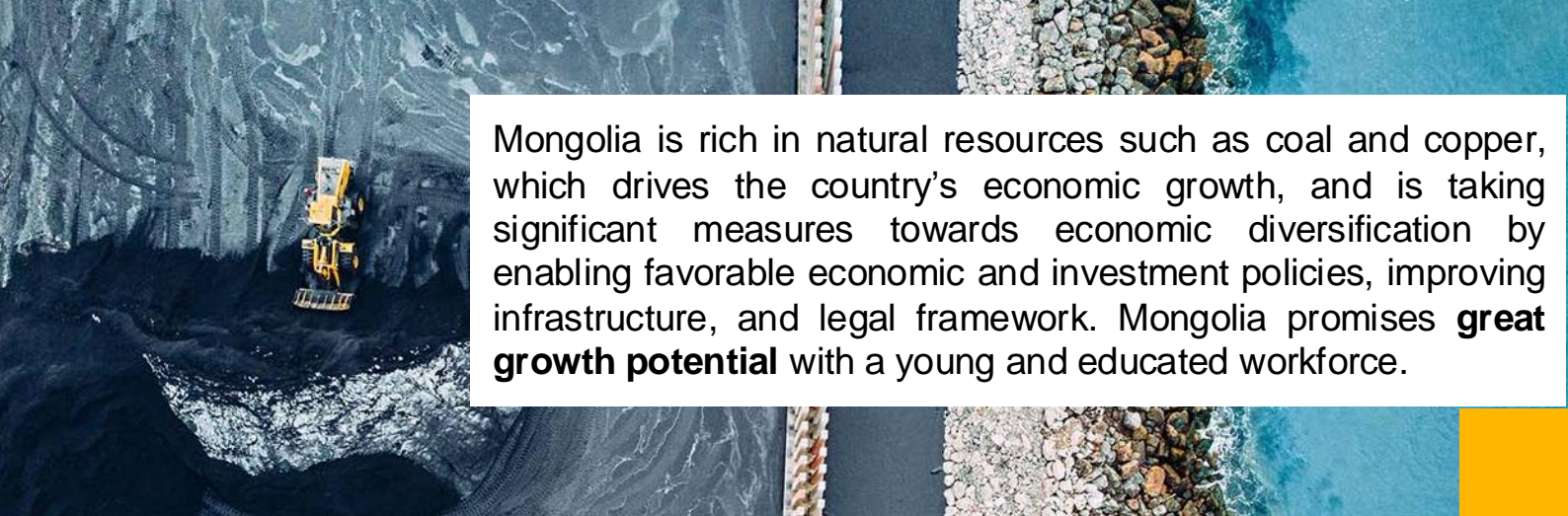
Sincerely,  
**Shaukat Tapia**  
Country Managing Partner





# Why invest in Mongolia





Mongolia is rich in natural resources such as coal and copper, which drives the country's economic growth, and is taking significant measures towards economic diversification by enabling favorable economic and investment policies, improving infrastructure, and legal framework. Mongolia promises **great growth potential** with a young and educated workforce.

Economic overview

The market can be characterized as young and full of opportunities, while facing some growth challenges, as just over 30 years ago Mongolia's economy underwent a significant transformation from a socialist to a market economy. Mongolia's economy is majorly driven by its rich natural resources and strategic economic policies. Mongolia presents **a unique and strategic economic landscape** for investors and businesses, located between two of the biggest nations and economies, China and Russia.

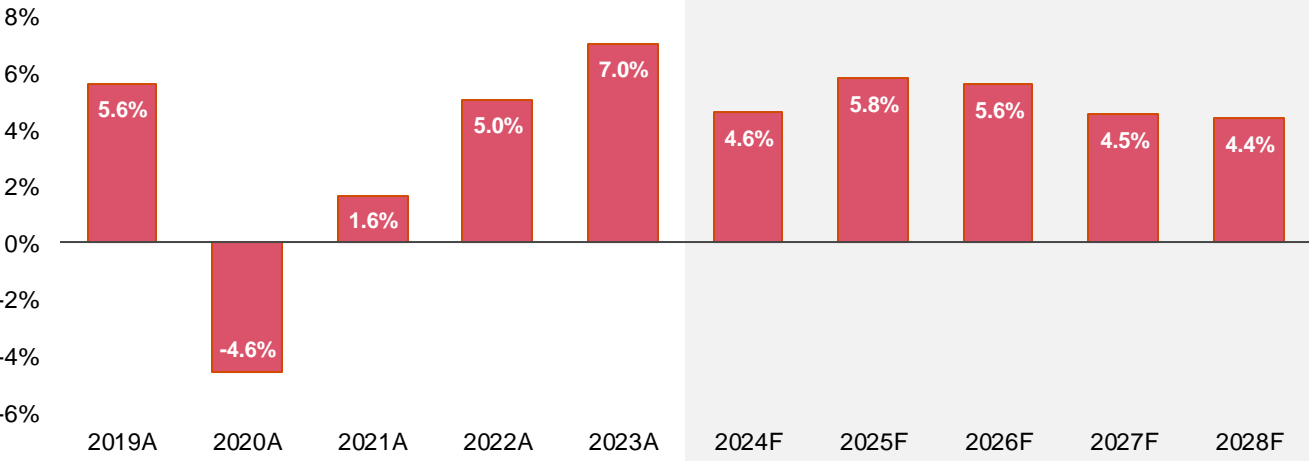
The government continues to invest in infrastructure and energy sector to facilitate efficient export logistics, and, hence, the mining sector is projected to continually drive growth in the upcoming years. Rising global commodity prices and growing demand for copper combined with increased production capacity played a beneficial role to mineral exports leading to fiscal surplus and larger international reserves. The significant growth in coal and copper exports supported trade balances.

Mongolia has made significant strides towards economic diversification, such as promoting the manufacturing, renewable energy, tourism, and information technology sectors. To align with global trends toward sustainable development and create new opportunities for growth and investment, Mongolia is actively implementing initiatives to develop its renewable energy sector. These efforts focus on leveraging the country's vast solar and wind resources, which hold significant potential for sustainable energy production.

Mongolia's economy is proving to be increasingly resilient over the years. As a result of significant growth in the mining and agriculture sector, the economy expanded by 7.0% in 2023.

Looking ahead, Mongolia's economic outlook remains positive, albeit potential climate-related risks and potential fluctuations in commodity prices. In particular the Asian Development Bank (ADB) projects a growth of 4.1% in 2024 and 6.0% in 2025, while the European Bank for Reconstruction and Development (EBRD) is more bullish for Mongolia's economy and expects a 7.5% growth in 2024, and S&P Global forecasts 4.6% growth in 2024 and 5.8% in 2025.

Real GDP growth in Mongolia, percentage



Source: IHS Markit



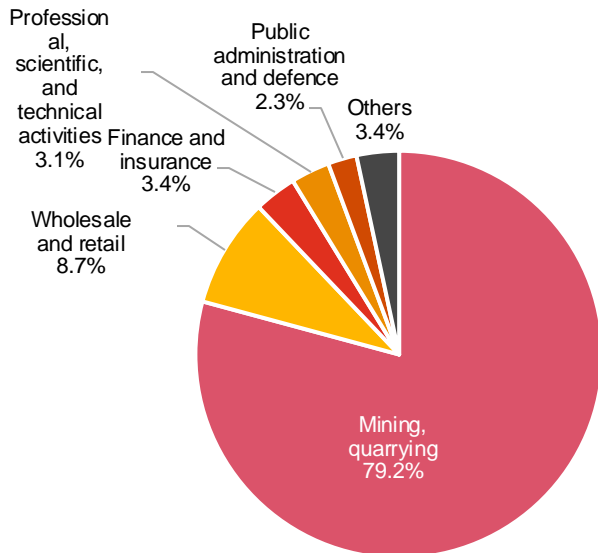
The country offers a **strategic position** for trade within Asia, situated between China and Russia, and beyond, as it expands its investment horizon with European countries.

### Investment

Mongolia has been implementing various reforms to create a more favorable investment climate, including tax incentives, streamlined regulatory processes, and initiatives to improve transparency and reduce corruption.

Mongolia continues to expand its global partnerships and collaborations through foreign direct investment (FDI). Mongolia's FDI environment is not constrained by its geographical location and is expanding its horizon. In 2023, Netherlands, the United Kingdom, and Singapore were the biggest investors, where the largest proportion of the investment was made in the mining sector.

### FDI inflow by sector



Source: National Statistics Office of Mongolia

FDI amounted to USD 3.4 billion in 2022 and USD 3.1 billion in 2023, while over 70% are generally distributed to the mining and quarrying sector, the renewable energy sector is increasingly attracted attention.

### Foreign trade

In 2023, Mongolia's foreign trade turnover reached an impressive USD 24.4 billion, reflecting an annual growth of 15.0%. Total exports increased by more than 20.0% reaching USD 15.2 billion. This growth underscores the expanding scale and scope of Mongolia's trade activities on the global stage.

Mongolia engaged in trade with 161 economies worldwide. This wide-reaching trade network reflects Mongolia's efforts to diversify its trade partnerships beyond its immediate neighbors. Given the geographic proximity and economic complementarities between the two countries, Mongolia has a strong trade relationship with China.

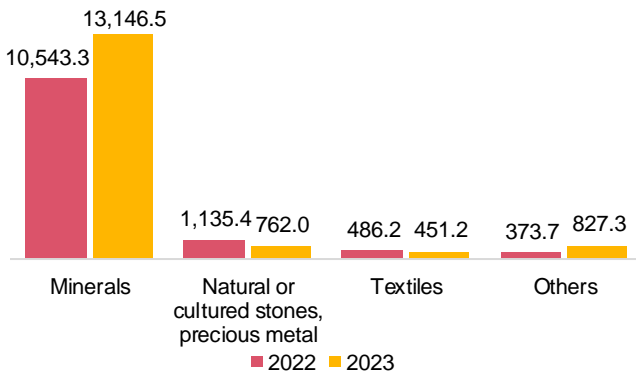
### Main trade partners in 2023, in million USD:

Export		Import	
1	China	13,940.2	China
2	Switzerland	666.3	Russia
3	Korea	126.4	Japan
4	Russia	112.7	Korea
5	Italy	99.0	America

Source: National Statistics Office of Mongolia

Mongolia recorded a substantial trade surplus of USD 5.4 billion, primarily attributed to the significant export of mining products. Mining commodities, including coal and copper, accounted for over 90% of Mongolia's total exports.

### Major export commodities, in million USD:



Source: National Statistics Office of Mongolia

## Mongolia continues to expand its network of trade agreements.

Mongolia has been a member of the World Trade Organization (WTO) since 1997 and applies Most-Favored-Nation (MFN) tariffs for WTO member countries. Mongolia and Japan signed the Japan-Mongolia Economic Partnership Agreement (EPA) in 2015, which entered into force on June 7, 2016. The EPA contains chapters covering areas such as trade in goods and services, customs procedures and trade facilitation, electronic commerce, investment protection, human mobility competition, protection of intellectual property, dispute resolution, and improvement of the business environment.

Mongolia and Canada signed a Foreign Investment Promotion and Protection Agreement (FIPA) in 2016, which entered into force on March 7, 2017. This agreement aims to provide a more transparent and predictable regulatory environment for Canadian investors in Mongolia.

In 2017, Mongolia and the United States signed a Bilateral Investment Treaty (BIT) known as the USA-Mongolia Agreement on Transparency in Matters Related to International Trade and Investment. This treaty focuses on improving transparency in trade and investment relations between the two countries.

Mongolia's ratification of the Asia-Pacific Trade Agreement (APTA) took place on December 12, 2019, and it entered into force for Mongolia on January 1, 2021. This agreement aims to enhance trade and investment cooperation among member countries in the Asia-Pacific region.

As of now, Mongolia has concluded tax treaties with 26 countries to avoid double taxation. Additionally, Mongolia has established Foreign Investment Promotion and Protection Agreements (FIPAs) with 43 countries, demonstrating its commitment to creating a favorable environment for international investment.

## Growth potential

### Young and educated workforce

Mongolia's young and well-educated workforce makes the market adaptable to the needs of modern industries such as information technology, engineering, and finance.

- Over 30% of population are under the age of 30
- The government allocates 15-20% of its budget in education, annually
- Literacy rate of over 98%.

### Renewable energy

Mongolia's renewable energy sector holds tremendous potential due to its geographical and climatic conditions. The country experiences over 250 sunny days per year, which makes Mongolia one of the best locations globally for solar energy projects.

In addition to solar energy, Mongolia's vast steppes offer excellent conditions for wind power generation. Studies have indicated that the country has a wind energy potential of about 1,100 GW. The government has recognized this potential and set ambitious targets to increase the share of renewables in its energy mix to 30% by 2030. Several wind farms, such as the Salkhit Wind Farm with a capacity of 50 MW, are already operational, and more projects are in the pipeline.

### Agriculture business potential

Mongolia's vast grasslands, covering about 80% of the country's land area, provide an excellent environment for livestock farming.

- **Cashmere:** Mongolia is the second-largest producer of cashmere in the world, accounting for about 40% of global supply.
- **Meat:** Mongolia has a livestock population that exceeds 70 million, including goats, sheep, cattle, horses, and camels. The meat produced is known for its organic and free-range qualities. There is a significant potential for expanding meat exports, particularly to neighboring countries and premium markets worldwide.
- **Dairy:** Investment opportunities exist in modernizing dairy farming practices and processing facilities to meet domestic demand and explore export markets.
- **Sustainable farming:** There is a growing trend towards organic and sustainable farming practices in Mongolia. The government and international organizations are supporting initiatives to promote sustainable land management and improve the resilience of the agriculture sector to climate change.



# Sectoral overview



# Mining sector

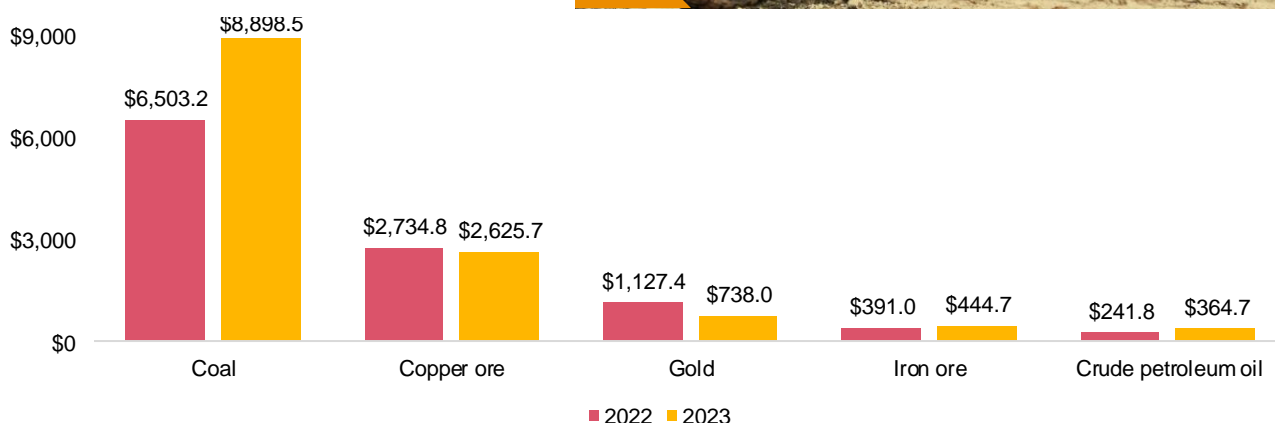
Mongolia is endowed with vast mineral resources and is recognized as one of the 49 resource-rich developing countries by the International Monetary Fund (IMF). The principal minerals mined in Mongolia include coal, copper and gold. These resources form the backbone of the country's mining sector, which plays a pivotal role in its economic development. The mining sector's growth is poised to accelerate, driven by several key factors:

- **Rising Global Demand:** Increasing demand for minerals and metals, particularly due to the transition to renewable energy and electric vehicles, is expected to boost the mining sector. Commodities such as lithium, cobalt, copper, and nickel are in high demand for batteries and clean energy technologies.
- **Improving Commodity Prices:** Recovery in commodity prices enhances the profitability of mining operations, encouraging investments in exploration, production, and infrastructure.
- **Technological Advancements:** Innovations in mining technologies, such as automation and digitalization, improve operational efficiency and reduce costs, making mining more competitive.
- **Increased Investment:** A favorable investment climate, including government policies that promote mining and resource development, is attracting both domestic and foreign investments in the sector.
- **Infrastructure Development:** Ongoing improvements in infrastructure, such as transportation and energy supply, facilitate mining operations and enhance access to markets.
- **Geopolitical Factors:** Supply chain disruptions and geopolitical tensions can lead to increased focus on securing stable supplies of critical minerals, further driving investment in mining activities.

Coal remains one of Mongolia's most significant commodities. Future developments in the coal sector are expected to focus primarily on coking coal projects due to the relatively stronger price outlook compared to thermal coal. Coking coal, essential for steel production, is in high demand, particularly from industrial giants like China.



Main commodity exports, in USD in millions:



Source: National Statistics Office of Mongolia



## 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. Consequently, the state, as the owner, holds the right to grant exploration and mining rights. The Parliament has the authority to declare a mineral resource as a mineral deposit of strategic importance (referred to as "Strategic Deposits") if the deposit may have a potential impact on national security, national or regional economic and social development, or 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 Deposit if the exploration activities were carried out by a state fund. If the relevant exploration of a mineral deposit of strategic importance was privately financed, the State may participate up to a 34% equity interest.

Entities holding a mineral license for a Strategic Deposit shall trade at least 10% of its shares on the Mongolian Stock Exchange. It is prohibited for any person to own more than 34 % of the total issued shares of a legal entity that holds a mineral license for a Strategic deposit, either alone or jointly with an affiliated entity.

- **Strategic Deposits:** Currently, there are 16 deposits that have been classified as "Strategic Deposits".
- **Deposits Under Consideration:** There are an additional 39 deposits identified and under consideration for classification as "Strategic Deposits".

### List of deposits:

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	Phosphorus
Mardai	Uranium	Boroo	Gold
Dornod	Uranium	Tomortein Ovoo	Zinc, lead
Gurvan bulag	Uranium	Asgat	Silver
Tomortei	Iron ore	Gatsuurt	Gold

The strategic importance of these deposits underscores Mongolia's potential as a major player in the global mining industry. The government's active role in managing and negotiating the exploitation of these resources ensures that the benefits are maximized for national development. The ongoing identification and classification of additional deposits as Strategic Deposits are expected to further boost the country's mining sector, attracting more foreign investment and fostering economic growth.

# Renewables sector

Mongolia possesses vast renewable energy resources that hold the potential to significantly bolster energy security, reduce pollution, meet global climate commitments, and develop regional electricity exports. According to the International Renewable Energy Agency (IREA), Mongolia's solar and wind resources alone could generate up to 15,000 terawatt-hours of electricity annually.

As of the latest figures, Mongolia's energy production reached approximately 10,000 million kWh, with 89.3% produced by coal-fired thermal power plants and the remaining 10.7% from renewable energy sources. The growth in renewable energy has been substantial, with the total energy supply from renewable sources increasing by 34% from 2014 to 2021, according to IREA.

## Strategic projects and developments

In line with the New Revival Policy, the Ministry of Energy is undertaking the Renewable Energy Enhancement Project in the Western Region. Key initiatives include:

- **Solar Power Plants:** Four solar power plants with a combined capacity of 35 MW.
- **Wind Farms:** Two wind farms with a total capacity of 15 MW.
- **Erdeneburen Hydropower Plant:** A significant project with a planned capacity of 90 MW, set to be completed by 2027.

These projects are poised to enable the energy consumption of five Western provinces to be fully supplied with renewable energy, drastically reducing reliance on coal-fired power and enhancing energy security.

According to the State Energy Policy approved in 2015, Mongolia aims to increase the national renewable energy capacity to 20% of the total installed energy capacity by 2020 and 30% by 2030. As the renewable energy sector expands, the need for efficient energy storage systems becomes critical. In 2020, the Asian Development Bank approved a USD 100 million loan to Mongolia for the installation of a 125 MW Battery Energy Storage System (BESS). This project, completed in December 2023, enabled the storage of 44 gigawatt-hours of clean peaking power annually. The adoption of BESS technology is crucial for optimizing the use of renewable energy and ensuring a stable and reliable energy supply.

## Policy and regulatory framework

Mongolia's renewable energy sector is governed by the Law on Renewable Energy (2007), which provides a legal basis for the development, production, and transmission of renewable energy. The Ministry of Energy and the Energy Regulatory Commission (ERC) are responsible for setting tariffs and issuing licenses. Tariffs and other key terms of PPAs can be negotiated and signed with the National Dispatch Center. Feed-in tariffs differ by type for on-grid and off-grid installations.

## Future Prospects

Mongolia's commitment to renewable energy development, supported by significant international investments and strategic projects, positions the country as a potential leader in renewable energy in the region. The ongoing efforts to enhance renewable energy capacity and infrastructure will not only contribute to global climate goals but also drive economic growth and energy independence.

This robust growth in the renewable energy sector, combined with the strategic initiatives under the New Revival Policy, underscores Mongolia's potential to transition towards a more sustainable and secure energy future.



# Tech sector

Mongolia's technology sector is on a promising trajectory, supported by government initiatives, digital innovation, and increasing foreign investment. The ongoing development in digital governance, telecommunications, and fintech present numerous opportunities for investors eager to capitalize on the growth of this dynamic sector.

## Fintech

The fintech landscape in Mongolia has seen accelerated development in recent years, driven by the success of several pioneering firms and the widespread adoption of smartphones. This trend has made financing and payment solutions more accessible and convenient.

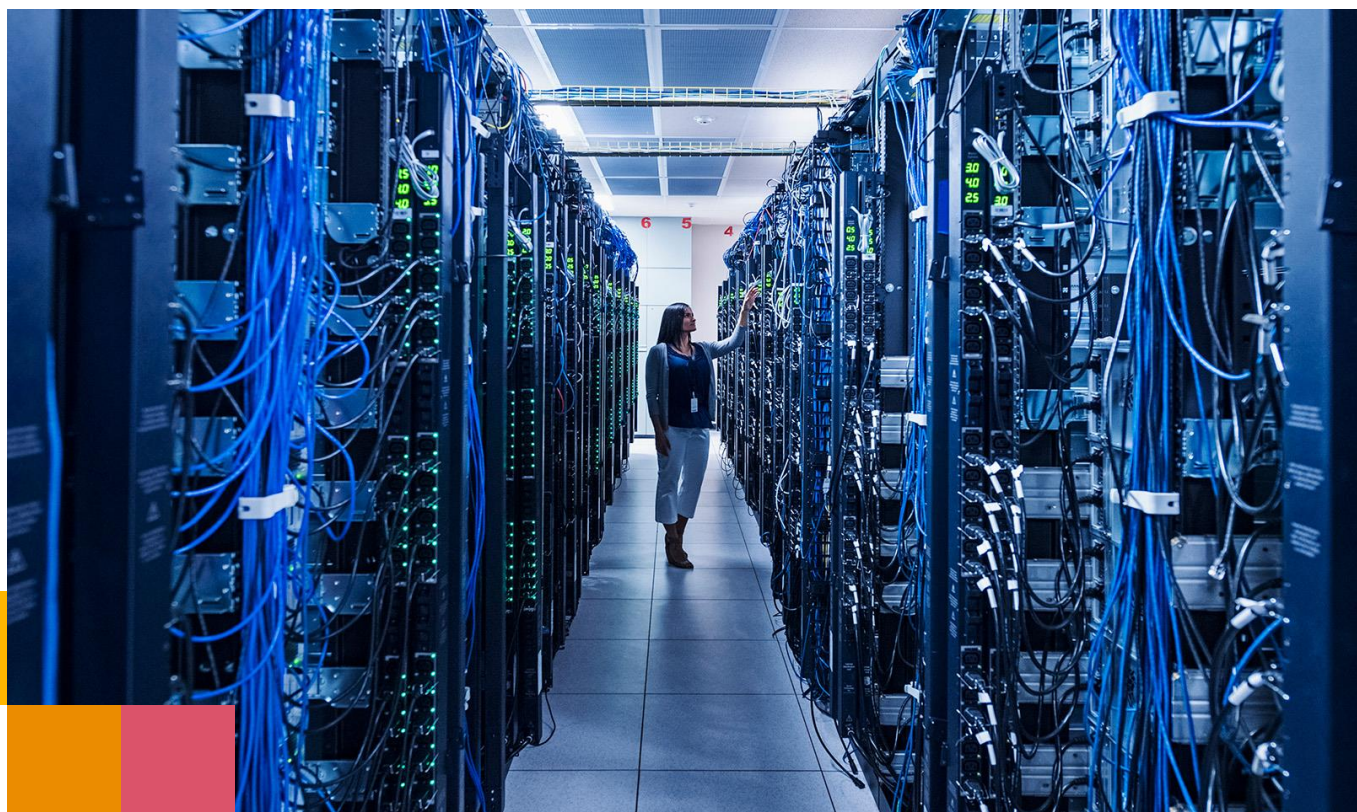
According to a survey by the Japan International Cooperation Agency (JICA), the Mongolian startup ecosystem was estimated to have a total value of USD 158.7 million in 2021. Within the surveyed companies, fintech companies generated the largest revenue of USD 13.0 million, followed by advertising and marketing tech startups with USD 3.4 million, and education tech startups with USD 1.2 million.

As of 2023, the Mongolian startup ecosystem continues to thrive with significant growth in various tech sectors as highlighted in the report by JICA:

- **Ecosystem valuation:** The total estimated value of the Mongolian startup ecosystem has reached approximately USD 146.6 million.
- **Revenue leaders:** Fintech companies remain the top revenue generators, estimated at USD 13.2 million. Advertising and marketing tech startups have increased their revenues to USD 3.5 million, and education tech startups to USD 1.3 million.
- **Growth in Fintech:** The number of fintech startups has risen by 20%, driven by innovative solutions in mobile payments, digital lending, and blockchain technology.
- **Smartphone penetration:** With over 70% of the population using smartphones, the fintech sector has seen rapid adoption of mobile banking and digital wallets.

Despite these advancements, challenges such as access to funding remains the biggest challenge, particularly in the early stages of development. While the primary source of financing continues to be the founders' personal savings, there is a growing interest from angel investors and venture capital firms.

The increasing value and diversity of Mongolia's tech startups highlight the sector's potential and the opportunities for investors looking to support innovation and growth in the region.





## Information technology

The IT sector in Mongolia continues to show promising advancements and growth, driven by market needs and increasing internet penetration. Here are some key points and statistics:

**Internet Penetration.** According to a World Bank report, Mongolia's internet penetration rate is nearing 70%, indicating a strong foundation for further digital growth. This increase in connectivity has been instrumental in the adoption of digital services and IT capabilities across the country.

**Market-Driven Development.** The IT sector in Mongolia has seen significant development over the past few years, largely driven by market needs rather than state support. According to the World Bank, this self-driven growth has enabled the sector to provide a wide range of services, including web development, software development, and IT consulting at competitive prices compared to Western Europe. IT services are becoming more integral to various industries, including banking, construction, and education.

**Government Initiatives.** The Mongolian government has initiated projects to support the IT sector, including the "Smart Government Project," which aims to improve governance and service delivery through the use of IT. This project highlights the potential for IT to transform public sector operations and improve overall efficiency.

Continued investment in digital infrastructure, education, and supportive policies will be crucial in overcoming existing challenges and harnessing the sector's full potential.

## Digital advancements

The Mongolian government's commitment to improving digital infrastructure has attracted foreign investments, especially in the areas of mobile networks and broadband services.

With regards to digital infrastructure, Mongolia has made significant strides in expanding its broadband network. The deployment of fiber-optic cables across urban and rural areas has enhanced the quality and speed of internet services. Additionally, Mongolia is exploring the deployment of 5G technology. Initial trials have shown promising results, and full-scale rollout is expected to significantly boost the capabilities of the ICT sector.

The growing demand for digital services presents numerous opportunities for ICT companies. Areas such as fintech, e-commerce, and digital healthcare are particularly promising. Continued innovation in areas like artificial intelligence, blockchain, and the Internet of Things (IoT) is expected to drive the next wave of growth in Mongolia's ICT sector.

In conclusion, Mongolia's tech sector presents a fertile ground for investment and innovation. With a supportive government, increasing digital infrastructure, and a thriving startup ecosystem, Mongolia is poised to become a significant player in the global tech landscape. Investors looking to support and benefit from this growth will find numerous opportunities in this dynamic and evolving market.



# Banking and Capital markets

## Banking

Mongolia's financial sector continues to be dominated by the banking sector, representing over 93.3% of total assets. The sector remains highly concentrated, with the five largest banks holding approximately 91% of total sector assets. These major banks are all rated by international rating agencies.

The amended Banking Law of 2021 mandates that ownership by a single shareholder and their related parties must not exceed 20% by the end of 2023. The implementation of the amended Banking law has been postponed to December 31, 2026. Systematically important banks all successfully listed public as they were required to be publicly listed by June 30, 2023.

### Market share of systematically important banks, 2023

	Total assets in mln. USD	% of total sector
Khan bank	5,087.1	30.4%
Trade and Development bank	3,567.2	21.3%
Golomt bank	3,409.2	20.4%
State bank	1,574.0	9.4%
Xac bank	1,501.0	9.0%

(Source: ihsmarket.com. Banking Risk - Mongolia, 2023., Connect by S&P Global)

The financial sector in Mongolia remains relatively underdeveloped outside of banking. Insurance, non-banking financial institutions, leasing companies, pension funds, and investment funds are still growing but are not yet as prominent as the banking sector.

These reforms and developments are part of Mongolia's broader efforts to stabilize and strengthen its financial system, ensuring greater transparency and resilience against economic shocks. The ongoing reforms are expected to attract more foreign investment and foster a more competitive and robust financial sector.

## Capital markets

The Mongolian Stock Exchange (MSE), established in January 1991, remains the sole stock exchange in Mongolia. The market capitalization of the MSE has reached significant milestones, with a record high of USD 3,406.9 million in 2023.

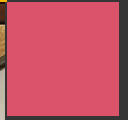
Categories	Number of companies
Category I*	27
Category II*	47
Category III*	98

**Category I** – companies that have a market capitalization of at least MNT 10 billion (USD 2.9 million), generate revenues of MNT 5 billion (USD 1.5 million), or Net Income of MNT 1 billion (USD 0.3 million).

**Category II** - companies that have at least a market capitalization of MNT 1 billion (USD 0.3 million), generate revenues of MNT 100 million (USD 30 thousand) and have at least 25% of shares offered to public.

**Category III** – companies that have offered shared 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.



# Starting a business

## Consideration for the investors:

- Foreign investors can operate in Mongolia as a limited liability company (LLC), representative office, or limited liability partnership (LLP). All corporate forms must be registered with the Legal Entities Registration Office (LERO), except for permanent establishments, which are registered with the tax authority and, if applicable, the social insurance authority.
- LLCs and representative offices are the most frequently used by foreign investors.
- Estimated statutory costs for establishing a foreign-invested LLC or representative office range from MNT 750,000 (approx. USD 220) to MNT 1,800,000 (approx. USD 530), excluding minimum compulsory share capital. The process of establishing a foreign company generally takes around two weeks from the submission of complete documents.
- Verify the latest requirements for minimum share capital and stay informed about any updates to the investment, tax, and legislative systems affecting foreign businesses in Mongolia.



# Forms of business

## Limited Liability Companies (LLCs)

LLC is the most commonly used form of a legal entity. LLC has 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.



For 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 Double Taxation Treaties (DTTs), 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, the 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”) in Mongolia:

1. **Altanbulag**: Located at the Russian border, this zone covers 500 hectares and has been operational since June 22, 2014.
2. **Zamyn-Uud**: Situated near the main border crossing with China, this zone covers 900 hectares. It was launched in October 2010 and is operational despite not being officially completed.
3. **Tsagaan Nuur**: Found in Bayan-Ulgii province at the western border with Russia, this zone spans 708.4 hectares. It is not yet operational, although several infrastructural investments have been made.

FTZs have special regime in terms of tax, customs, transit, state registration, foreign currency, specialized inspection, visa and labor 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 labor 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.

Sector / Activities	Applicable tax incentives	Duration	Percentage
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 (approx. USD 150 million);
- 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 (approx. USD 150 million) or holding a stabilization certificate for an investment project of more than that amount, 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 to 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 a 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 prepare their financial statements in accordance with the International Financial Reporting Standards (IFRS). Specifically, financial statements of 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. Financial statements of 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 financial statements of public institutions subject to the Law on Budget must comply with international public-sector accounting standards ('IPSAS').

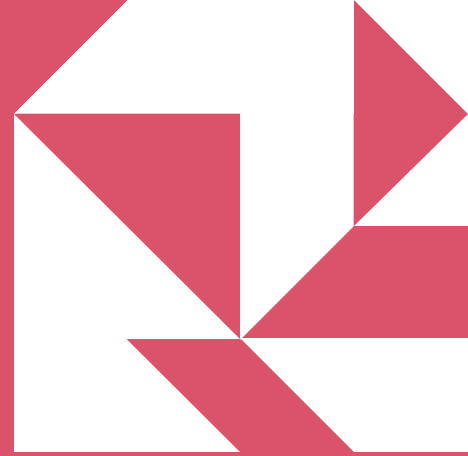
The Law on Accounting further requires accounting books and records to be executed in Mongolian language and be reported in MNT. USD is an alternative currency to MNT for entities as their functional currency only on receipts of a fund upon approval from the Ministry of Finance. Businesses that must 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 statements 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 file tax returns on a 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 and 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 the 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 in accordance 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 5 consecutive years there is a minimum 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:

- Employers are required to enter into employment agreements with their employees. These agreements can be either fixed-term or indefinite. Indefinite employment agreements are mandatory, except in specific cases.
- The Mongolian government annually sets quotas for foreign employees by sector, based on labor supply and demand. Foreign employees must register with the Immigration Office within 48 hours of entry to avoid fines and must apply for a residence permit within 21 days.



# Labor market

In the second quarter of 2024, Mongolia's labor market has an unemployment rate of 5.8% and a labor force participation rate of 62.2%, up from 61.1% in the first quarter. The total labor force is around 1.4 million people, with employment distributed across various sectors, including industry, services and agriculture.\*

## Employer/employee relations

The primary regulatory requirements for labor relations in Mongolia are outlined in the Labor Law of Mongolia dated July 2, 2021 (Labor Law).

In accordance with the Labor Law, employers must conclude an employment agreement with their employees and provide a copy to the employee. The agreement can be either for a fixed or an indefinite terms. An indefinite employment agreement is mandatory, with certain exceptions. If the total duration, including extensions, exceeds two years, it becomes an indefinite term agreement.

## Trade unions and collective agreements

Trade unions are generally in the health, mining, and energy sectors. A collective agreement may initially be concluded voluntarily between an employer and the representatives of employees to ensure labor rights and legal interests that are more favorable than those guaranteed by law and to regulate matters not directly covered by the Labor Law. A collective agreement becomes binding once registered with the respective local administrative bodies in charge of employment matters where the employer has its principal place of business.

The Labor Law provides some flexibility in negotiating terms and conditions of employment. However, it upholds the principle of protecting employees, who are considered the economically weaker party. Consequently, any agreement between an employee and its employer that includes terms less favorable to the employee than those stipulated by legislation may be deemed void.

## Salaries and wages

Salaries are determined independently by each employer, and the monthly base salary of an employee must be specified in the employment agreement. However, it must not be lower than the minimum wage set by the Tripartite National Labor Committee of Mongolia. The current minimum wage in Mongolia is MNT 3,929 (USD 1.15) per hour or MNT 660,000 (USD 193) per month. This rate is effective until April 1, 2025, after which it will increase to MNT 4,715 (USD 1.38) per hour and MNT 792,000 (USD 231) per month. Employers are responsible for withholding social insurance premiums and personal income taxes from the monthly gross salary of their employees.

## Working hours

It is presumed that a full-time employee works 40 hours per week, with 8 hours per day. Overtime is subject to additional pay or time off in lieu. Details regarding the work regime, such as the start and end of the workday, time for meals, and other breaks, may be determined by internal labor regulations, collective agreements, or employment agreements.

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

## Equal opportunities

The Labor Law prohibits all types of workplace harassment and gender-based discrimination in employment, mandating equal pay for work of equal value. Additionally, when recruiting an employee, employers are prohibited from asking questions or collecting information that is irrelevant to the employee's job duties.

The Labor Law also requires that legal entities with 25 or more employees must employ persons with disabilities, making up at least 4% of the total job positions. If this requirement is not met, employers must pay a monthly fee equivalent to the minimum wage for each vacancy designated for persons with disabilities.

\* National Statistics Office of Mongolia, Statistical information database, 2024, [1212.mn](#)

## Employment of foreign nationals

Employment of foreign nationals is regulated by Labor Law, Labor Migration Law and Law on the Legal Status of Foreign Citizens. Under the Labor Migration Law, the Cabinet determines the list of specialized positions by October 1 every two years. The latest list includes 130 specialized positions across 11 economic sectors, based on the International Standard Classification of Occupations (ISCO-08). The required professional qualifications are categorized as:

1. Professional specialty and above
2. Bachelor's degree or higher
3. Master's degree or higher

Foreign employees' quota per economic sector is annually determined by the Cabinet by October 1. The quota for foreign employees for 2024 was approved and amended as below:

Sector	Quota limits for 2025
A Agriculture, forestry, fishing, hunting	Not subject to quota limits
B Mining and quarrying	Not subject to quota limits
C Processing industry	Not subject to quota limits
D Electricity, gas, steam, ventilation	Not subject to quota limits
E Water Supply; Sewerage System, Waste Management, and Environmental Restoration Activities	Not subject to quota limits
F Construction	Not subject to quota limits
G Wholesale and retail trade, repair and maintenance, services of cars and motorcycles	Not subject to quota limits
H Transportation and warehousing activities	Not subject to quota limits
I Hotel, Accommodation, and Public Catering Services	Not subject to quota limits
J Information and Communications	Not subject to quota limits
K Financial and insurance activities	Not subject to quota limits
L Real estate activities	Not subject to quota limits
M Professional, Scientific, and Technical Activities	Not subject to quota limits
N Administration / Management and support activities	Not subject to quota limits
O State Administration, Defense Activities, and Mandatory Social Protection	110
P Education	Not subject to quota limits
Q Human Health and Social Work Activities	Not subject to quota limits
R Arts, Entertainment, and Recreation	Not subject to quota limits
S Other Service Activities	Not subject to quota limits
T Activities of Households as Employers; Undifferentiated goods and services produced by households for their own use	Not subject to quota limits
U Activities of international organizations and representation offices	600

## Work permit and employment process

Foreign nationals intending to stay and work in Mongolia must obtain a visa permit, visa, work permit and residence permit. The process includes:

- Before Entry: Apply for a work visa at a Mongolian embassy, which requires visa permission from the Immigration Authority.
- Employer's Role: Employers must first obtain a permit to invite a foreign national, typically requiring proof of active local recruitment for at least 14 days, except for managerial and technical positions.
- Work Permit Issuance: Based on the invitation permit, the work permit is issued.
- Post-Entry: Upon entry, the foreign employee must be registered with the Immigration Office within 48 hours and apply for a residence permit within 21 days.

## Residency permit

Those who obtained a work permit or permanently live in Mongolia are required to obtain a residency permit. A residency permit is processed through <https://isf.mn/mn/service/residency-permit/> and is usually issued within 10 business days. Submission of the supporting documents in person with the Immigration Authority may be necessary.

Additional requirements in relation to foreign employees include:

- Workplace Fee: A fee of MNT 1,320,000 per foreign employee, payable in advance, with certain exemptions including managerial roles.
- Employment Quotas: Although the Cabinet set quotas for foreign employees for 2025, almost all sectors were exempted from the quota limit.
- Property Ownership: Foreign citizens may own buildings but not land in Mongolia.



### Termination of employment

Employers may terminate employment agreements only based on grounds specified in Labor Law. In cases where the employer initiates termination, it is important to comply with local termination procedures. This includes documenting key events, specifying proper legal grounds in the termination notice, and providing the employer’s official decision in written form and paying the severance pay when applicable.

### Social security system

Both, an employee and an 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. The employee contribution rate is currently 11.5% and is capped at MNT 759,000 (USD 223).

Insurance type	Employer	Employee
Pension	8.5%	8.5%
Benefit	1.0%	0.8%
Health	2.0%	2.0%
Industrial accidents and occupational disease	0.5%, 1.5%, 2.5%	-
Unemployment	0.5%	0.2%

### Public holidays

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

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



# Visa and Immigration

In general, foreigners can enter Mongolia through three options.

## 1. Obtaining E-visa

E-Visa option is available for the following visa types:

- a tourist visa (K2),
- a cross-border tourist visa (K3),
- a visa for cultural and sport event (K4).
- a transit visa (K6)

Most of these visas can be processed through E-Visa online platform <https://evisa.mn>. Alternatively, a foreigner may apply for the above-mentioned types of visas at the Mongolian diplomatic missions or border checkpoints.

## 2. Arrive in Mongolia without a visa

This option is applicable to citizens of countries that are exempt from visa requirements, subject to certain conditions such as the purpose of travel. For a list of visa-exempted countries, please visit <https://en.consul.mn/visa/c/83>.

## 3. Arrive in Mongolia with visa

If a foreigner is not eligible for E-visa or the non-exemption, a visa permission and visa from the Mongolian diplomatic missions abroad or border checkpoints. Visa permission is a document issued by the Ministry of Foreign Affairs to the Mongolian diplomatic missions to grant a visa to a foreigner.

## Investor and Work Visas

There are a total of 64 types of visas, all of which can be categorized into 9 groups. For investors and foreign employees, the following visa types are relevant:

### Investor Visa (Type B Visa)

There are 3 sub-types of Investor visa:

- B1: An investor/shareholder of a foreign invested company;
- B2: A person appointed as an investor's representative or an executive management of a foreign-invested company;
- B3: A managing person of a representative office of a foreign entity.

### Work Visa (Type C Visa)

Work visas can be granted to foreign nationals who are intending to work in one of the following sectors.

- C1: Construction sector;
- C2: Science, education or information technology sector;
- C3: Geology, mining, oil or energy sector;
- C4: Financial, economic or legal sector;
- C5: Culture or sports;
- C6: Production or services;
- C7: Agricultural sector;
- C8: Healthcare sector
- C9: Humanitarian sector;
- C10: Household care services
- C11: Transport sector and transporting export goods.





# Taxation

## Consideration for the investors:

- Commencing on 1 July 2024, a series of modifications were enacted for the securities issued by the Government, provinces, capital city, and resident taxpayers that are traded on the primary and secondary domestic stock markets. These changes include:
  - The taxable income earned by non-resident taxpayers from the sale of these securities will be computed on a net basis, marking a departure from the current practice where the tax base is the gross amount.
  - Obligations of the tax withholder are assigned to the entities responsible for the central depository and custodian activities of these securities, marking a departure from the current practice of the self-assessment basis.
  - A significant tax credit will be provided for the capital gain taxes on these securities. Specifically, a tax credit of 90% will be applied for the years 2024-2026, and a 50% credit will be applied for the years 2027-2029.

## Tax system

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

The Mongolian Tax Authority (MTA) has an electronic tax system which not only enables taxpayers to file tax returns but also lets them to view their tax risk assessments and tax scores thereof, which is used to determine which taxpayers are selected for tax audits.

A statutory limitation period is 4 years. 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.

There is a comprehensive system of sanctions for non-compliance with the tax legislation. For instance, if the taxpayer fails to levy a tax or reduces a tax payable in order not to pay a tax or to hide 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

General Tax Law (GTL), the Corporate Income Tax Law (CIT Law), the Value Added Tax (VAT), and Personal Income Tax Law (PIT Law) are the main tax legislations applicable to most entities operating in Mongolia.

As a member of the Organization for Economic Cooperation and Development (OECD)'s Inclusive Framework on Base Erosion and Profit Shifting (BEPS), Mongolia has incorporated many BEPS Project recommendations, including minimum standards, into its domestic legislation

In 2024, Mongolia ratified the BEPS Multilateral Instrument (MLI) enabling the implementation of minimum standards (e.g., principle purpose test) to counter treaty abuse and improve dispute resolution, while allowing flexibility for specific tax treaty policies.

## 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. Furthermore, the supporting documentation must also be in, or translated into, Mongolian.

## Advance clarifications

There is a legislative mechanism for the tax authority start to issue a guidance/recommendation for implementing tax laws based on a taxpayer's request or under its own discretion.

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 reassessed 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 (USD 29,317), 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 established double tax treaties with 26 countries, as detailed in appendix 2.

# 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:

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

CIT rates are 10% on the first MNT 6 billion (USD 1,759 thousand) and 25% on excess profits thereafter. But 1% CIT can apply to entities with revenue of up to MNT 300 million (USD 87,951) and 90% tax credit can apply to entities with revenue of up to MNT 1.5 billion (USD 439,754) (not applicable to entities operating in mining, petroleum, alcoholic beverages and tobacco industries).

There is a special tax rule 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	5%*/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 (which 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 instance, 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 do 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

An individual is considered a resident taxpayer of Mongolia if he/she stays in Mongolia for 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

### Salaries and wages

Starting in 2023, an amendment to the PIT law introduced progressive tax rates for salaries and wages (or similar employment incomes). The annual income tax rates are as follows:

- Up to MNT 120 million (USD 35,083): 10%
- Between MNT 120 million and MNT 180 million (USD 35,083 – USD 52,624): 15%
- Over MNT 180 million (USD 52,624): 20%

We used the exchange rate of 3,420.46 USD/MNT from the Bank of Mongolia as of December 31, 2024, to illustrate the amounts in USD.

### 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 rates
Employment income	10% 15% 20%
Business and professional income	10%
Income from property, i.e. dividends, royalty, interest, capital gain from sale of securities/stocks	10%
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)	5%
Income from sports competitions, art performances, and similar income (gross)	5%
Income from betting games, gambling and lotteries (gross).	40%

# 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 (USD 14,658) within 12 consecutive months.

If a taxpayer's revenue has not reached MNT 50 million (USD 14,658) after being registered as a 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 for sales of goods and rendered services is received;
- 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 size 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 loans;
- 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 (USD 14,658) 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 1 - 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 2% 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.	Tax rate vary depending on type of goods.  Exemption is possible for goods imported to FTZs.
Customs Duty	Tax is levied on the purchase price of the imported goods excluding some products such as equipment, 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.	Tax rates range from 5% to 20% depending on the type of product.
Stamp Duty	Stamp duties are imposed, inter alia, on the following deeds: <ul style="list-style-type: none"> <li>Monitoring of and decisions on matters of legal status by a court of law;</li> <li>Registration of business entities and organizations;</li> <li>Registration of business entities with foreign investment, foreign organizations, their branches and representative offices;</li> <li>Permission to carry out services and production which requires special permission or expertise;</li> <li>Grant of certification for copyright, patent or trademarks;</li> <li>Registration of copyrights;</li> <li>Granting of permission to carry out activities in respect of securities, other.</li> </ul>	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.
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.	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.
City tax	The tax is imposed on following goods and services in the capital city (Ulaanbaatar): <ul style="list-style-type: none"> <li>All types of alcoholic drinks;</li> <li>All types of cigarettes;</li> <li>Hotel services;</li> <li>Resort/camp services;</li> <li>Restaurant services;</li> <li>Night club services.</li> </ul>	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 2 - 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

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

# Appendix 3 - Stabilization Certificate

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

Investment amount (MNT in billions)	Term of stabilization 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

## 2. Stabilization certificate terms for investment projects in all other sectors

Investment amount (MNT in billions)	Term of stabilization 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.

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With offices in **149 countries and more than 370,000 people**, we are among the leading professional services networks in the world. We help organizations and individuals create the value they are looking for, by delivering quality in **Assurance, Tax and Advisory services**. Some facts about PwC:

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PwC has been operating in Mongolia since 2010, and for over 15 years we've been committed to driving sustainable growth. Currently PwC employs 100 dedicated professionals dedicated to help our clients achieve their goals and unveil new opportunities for growth.



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## 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



## Advisory

- Strategy and Operations consulting
- Financial and Commercial due diligence
- Valuation and Modelling

### Other advisory services

- Diagnostic review and implementation of recommendations with regards to AML, anti-bribery, foreign tax compliance act
- Operational efficiency and branch organization
- Consulting on risk management and Basel
- Design and implementation of environmental and social risk management system (ESMS)
- Support in setting up custody business
- Reduction of reporting lead time (Smart close)
- Design of performance management systems (KPIs)
- Forensic reviews



## 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.

Transfer Pricing

Secondment services

Assistance with statutory tax audit

Tax dispute resolution services



## Broader Assurance Services

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- M&A, carve-out and spin-off transactions
- IPOs and private placements
- Divestitures and disposals

### Accounting advisory

- Accounting advisory in accordance with IFRS
- Treasury accounting and government accounting
- Accounting conversion and transaction accounting
- Accounting policy and manual update

### Internal Control

- Review and assessment of internal control systems
- Risks and controls analysis, design of controls and effectiveness testing
- Business process re-engineering

### Governance, risk management and compliance (GRC)

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- Consulting on IT risk and governance
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## Legal Business Solutions

- 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

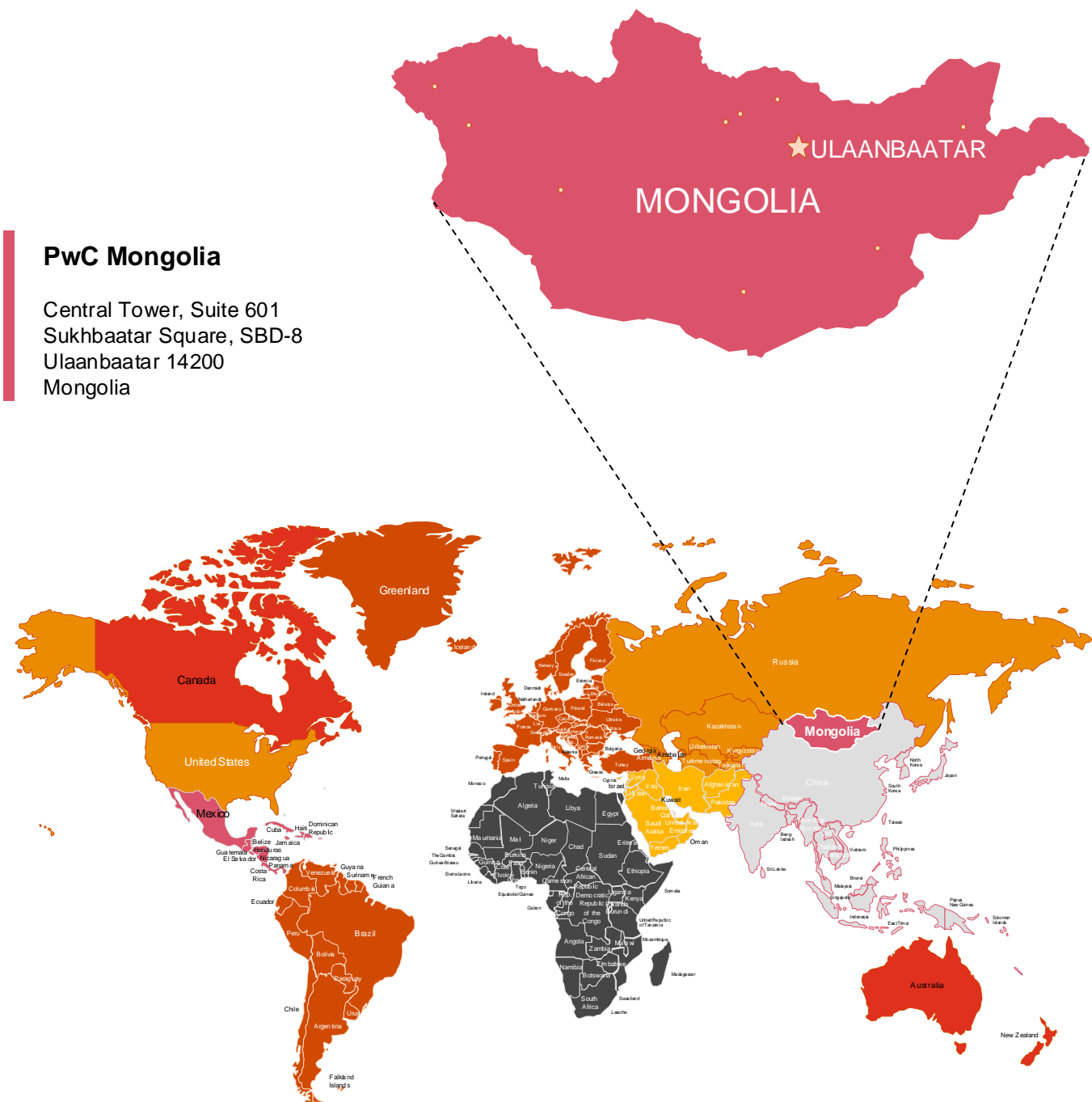


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- Finance & accounting workshops
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- Business skills & management workshops
- ESG workshops
- Professional qualifications: CIPD, BCD, ACCA, CIA, CIMA, CIMA CFO, Lean Six Sigma
- E-learning solutions
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- Coaching programs
- Executive coaching
- HR consultancy
- PayWell salary & benefits survey

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# Office location in Mongolia



## PwC Mongolia

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



# Contact us

**Shaukat Tapia**

Country Managing Partner, Assurance Leader

E: [shaukat.tapia@pwc.com](mailto:shaukat.tapia@pwc.com)

**Dmitry Mogilnitski**

Country Managing Director, Assurance Services

E: [dmitry.mogilnitski@pwc.com](mailto:dmitry.mogilnitski@pwc.com)

**Tsendmaa Choijamts**

Director, Tax, Legal and People Services

E: [tsendmaa.choijamts@pwc.com](mailto:tsendmaa.choijamts@pwc.com)

**Munkhjargal Ragchaakhuu**

Senior Manager, Legal Services

E: [munkhjargal.ragchaakhuu@pwc.com](mailto:munkhjargal.ragchaakhuu@pwc.com)

**Munkhbaatar Enkhbat**

Manager, Broader Assurance Services

E: [munkhbaatar.enkhbat@pwc.com](mailto:munkhbaatar.enkhbat@pwc.com)

**Anujin Amar**

Academy Leader, Academy and HR Services

Marketing, Communications and Business Development Leader

E: [anujin.amar@pwc.com](mailto:anujin.amar@pwc.com)

**PricewaterhouseCoopers Audit LLC**

Central Tower, Suite 601, 6<sup>th</sup> floor

Sukhbaatar Square, SBD-8,

Ulaanbaatar-14200, Mongolia

Tel.: +976 70009089

Tel.: +976 (11) 329089

**PricewaterhouseCoopers Advisory LLC**

Central Tower, Suite 602, 6<sup>th</sup> floor

Sukhbaatar Square, SBD-8,

Ulaanbaatar-14200, Mongolia

Tel.: +976 70009089

Tel.: +976 (11) 329089

**PricewaterhouseCoopers Tax TMZ LLC**

Central Tower, Suite 603, 6<sup>th</sup> floor

Sukhbaatar Square, SBD-8,

Ulaanbaatar-14200, Mongolia

Tel.: +976 70009089

Tel.: +976 (11) 329089

**PricewaterhouseCoopers Legal LLP**

Central Tower, Suite 605, 6<sup>th</sup> floor

Sukhbaatar Square, SBD-8,

Ulaanbaatar-14200, Mongolia

Tel.: +976 70009089

Tel.: +976 (11) 329089



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