



Transfer pricing compliance

The 2023 transfer pricing (“TP”) reporting deadline is approaching. Under the Mongolian TP rules taxpayers have to report both cross-border and domestic related party transactions.



TP reporting requirements

Taxpayers should prepare and submit annually to the tax authorities the following transfer pricing reports in order to ensure that in establishing prices between related parties the taxpayers fulfilled transfer pricing requirements.

Name of TP report	Who should file?	When should submit?	Practice considerations
Annual transactional TP report	<ul style="list-style-type: none"> All taxpayers, irrespective of amount of related party transactions 	10 th of February following the year end	<ul style="list-style-type: none"> All transaction(s) with related parties should be reported; Information about Shareholder(s) and related parties should be disclosed; Specific requirement to disclose transactions involving intangible assets and financial transactions.
Local File	<ul style="list-style-type: none"> Companies or groups with an annual turnover MNT 6 billion (approx. USD 1.7 million) or more for the preceding tax year; or 		<ul style="list-style-type: none"> In specific contexts, the disclosure requirements and application criteria for transfer pricing methodologies may vary between global transfer documentation at the Group level and those applicable in Mongolia. Tailoring of global TP documentation for Mongolian reporting purposes is crucial in order to be compliant.
Master File	<ul style="list-style-type: none"> Foreign invested companies, irrespective of size. 		
Country-by-country report (CbCR)	<ul style="list-style-type: none"> A group parent entity residing in Mongolia or other assigned entities of the group, who’s consolidated sales revenue is more than MNT 1.7 trillion (approx. USD 485 million). 	Within the 12 month period after the last day of the group financial year	<p>A Mongolian tax resident (that is a Constituent Entity of a multinational group (“MNE Group”)), shall notify the Mongolian tax authority on the following within the annual tax reporting deadline:</p> <ul style="list-style-type: none"> Whether it is the Ultimate Parent Entity (“UPE”) or the Surrogate Parent Entity (“SPE”); If its is not the UPE or the SPE, it shall notify the tax authority on details / identity and tax residence of the Reporting Entity.

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TP concept	Description
<p>TP reporting requirement</p>	<p>Information presented in the TP reports should be aligned with the TP reporting templates approved by the Ordinance of the Commissionaire of the General Taxation Department No. A/133 and dated 3 September 2020.</p> <p>For instance, if certain information that is required to be disclosed under the Mongolian TP reporting is missing in the MNE Group's Master file, then taxpayers have to include such information for the Mongolian TP reporting purposes.</p> <p>In the Local file, a taxpayer shall report and evaluate the arm's length nature of the TP policy applied in their significant controlled transactions which is determined as the highest of the following:</p> <ul style="list-style-type: none"> ➢ 1% of sales revenue of the previous year; ➢ 1% of total expenses of the previous year; ➢ 1% of additional paid in capital derived from internal sources; or ➢ MNT 50 million. <p>Irrespective of the above threshold, transactions involving intangible assets as well as financial transactions are considered as significant and shall be reported in the Local file.</p> 
<p>TP adjustment</p> 	<p>In case taxpayers did not submit TP reports, or reduced a taxable income, the tax authorities will make a primary TP adjustment and reassess a tax. Moreover, differences arising as a result of the primary adjustment will be treated as a dividend and taxed accordingly as a secondary TP adjustment.</p> <p>To adhere to their TP policies and comply with the local TP regulation, taxpayers can make voluntary year end TP adjustments. Effective TP operations are an essential part of a good tax compliance and governance, and a key part of a company's efficient financial processes.</p> <p>The Mongolian tax authority published on its website answers to taxpayers' enquiry on the voluntary TP adjustments. For more details, please refer to the "Frequently asked questions on the transfer pricing" section in the Mongolian tax authority website www.mta.mn.</p>
<p>Penalty on non-submission of TP reports</p>	<p>In case of non-submission of TP reports, the following penalties will apply:</p> <ul style="list-style-type: none"> • For an Annual transactional TP report, the penalty is 2% of the total amount of the related party transactions; • For a Local file and Master file, the penalty is 3% of the total amount of the related party transactions; • For a CbCR, the penalty is 4% of the total amount of the related party transactions.
<p>TP cases</p>	<p>It is important for taxpayers to demonstrate that the TP policies applied are in line with the arm's length principle and reflect the substance and activities of their business.</p> <p>In recent years, there has been substantial increase in the number and size of TP audits with the local tax authorities. Stay tuned to our updates on this crucial issue.</p>



How PwC can help you?



Diagnostics of transfer pricing risks and Development of TP policies



Development of pricing policy for intra-group transactions



Operational TP to make all aspects of transfer pricing implementation



Assistance in creating the internal transfer pricing control function



Preparation / Localization / Update of TP documentation and all types of transactions



Assistance and support during transfer pricing audit



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