

Proposed changes to the tax laws accompanying the 2023 Budget Law

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The Mongolian Government submitted the 2023 Budget Law and accompanying drafts laws to the Parliament on September 29, 2022. The objectives of 2023 budget law package include the advancement of the securities market and IT industry, the promotion of the business climate, and the expansion of fiscal revenue base. With this tax and legal alert, we present you the highlights of the proposed changes to the tax laws.

The Law on Personal Income Tax ("PIT"):

Based on international practice and in order to reduce income inequality, the Ministry of Finance ("MOF") has proposed to introduce a progressive rate PIT on salaries, wages, equivalent income and indirect income from 2023. According MOF, the aforementioned reform will impact only 0.1 percent of taxpayers.



PIT progressive rates on employment income

According to the draft amendments to the PIT law, annual taxable income from salaries, wages, similar income, and indirect income will be taxed at the following progressive rates:

Annual taxable income (MNT)	Tax Rate (%)
0-120 million	10%
120 - 180 million	12 million MNT plus 15% on income exceeding MNT 120 million
More than 180 million	21 million MNT plus 20% on income exceeding MNT 180 million

The withholder (e.g., employer) is responsible for year end final adjustment on tax estimation, reporting, and tax payments related to salaries, wages, equivalent income, and indirect income per the draft law.



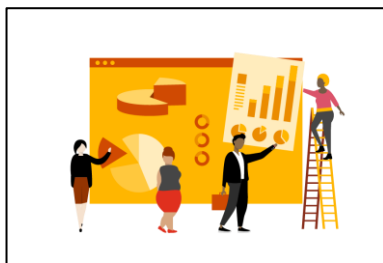
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Corporate Income Tax (“CIT”) Law:

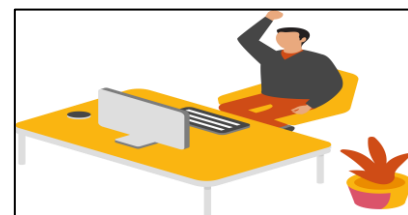
1. For Mongolian resident taxpayer entities that get listed or issue securities on foreign and domestic stock exchange (except for mining license holders):

- To decrease the withholding tax rate on dividends to 5%;
- To allow 20% increase of deductible expenses incurred in connection with the initial public offering of shares and issuance of securities.



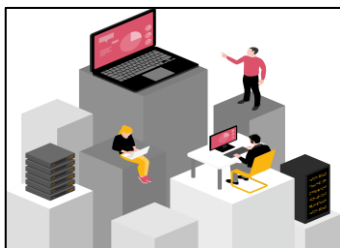
2. For Investment Funds:

To operating income of the Investment Funds from CIT. Per the Law on the Securities Market, the Investment Fund is defined as a mutual or private equity fund that is managed by management company to carry out investment activities. Currently, 36 Investment Funds are operating in Mongolia.



3. For start-up companies:

To extend the exemption period from 3 to 5 years (from the date of registration) for tax on income derived from the supply of innovative products produced domestically, works and services.



4. For IT companies:

To apply the withholding tax rate of 5% on royalty and server lease payments transferred to non-resident taxpayers from resident taxpayer entities operating in the software development and design

5. For companies that provide public transport tickets or non-cash travel allowances to their employees:

To allow 50% increase of deductible expenses for expenses that incurred in connection with the purchase of a public transport ticket or travel allowances non-cash form and meet the general and specific requirements of deductible expenses.



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