



# Investment in Mongolia

KPMG in Mongolia

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2019 Edition

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# COUNTRY OUTLINE



# 1 COUNTRY OUTLINE

## 1.1 Introduction

After topping lists as one of the world's fastest growing economies during the years 2011 – 2013 on the back of a flourishing mining sector, Mongolia faced an economic downturn in 2015 – 2016 due to slowing growth in China, decline in international commodity prices and a dispute with a major investor. However, the Mongolian economy recovered better than expected in 2017 and Q1 2019 owing to strong exports, the approval of the International Monetary Fund's Economic Recovery Plan package, and inflow of large-scale foreign investment in the second-phase expansion of the country's largest mine.

With an outward-looking professional business community, democratic government and rapidly improving living conditions, between 2014 and 2018, Mongolia climbed from 76th to 62nd in the World Bank's Ease of Doing Business Index (out of 190 countries), following reforms which made it easier to start and operate a business.

Landlocked between Russia and China, Mongolia is a country of extremes. Despite having the coldest capital city in the world<sup>1</sup>, summer temperatures can exceed plus forty degrees Celsius. The climate is arid, but when it does rain, it can be torrential. Although very thinly populated, with just over three million people in an area the size of Western Europe<sup>2</sup>, city housing stock is in short supply and the cosmopolitan atmosphere of central Ulaanbaatar contrasts with the remote existences of smaller communities.

## 1.2 Geography and climate

Bordered on the north by Russia and on the east, south and west by China, Mongolia has a total area of one point five million square kilometers, making it the nineteenth largest country in the world and the second largest landlocked country.<sup>3</sup> For administrative purposes, the territory is divided into three cities and twenty-one provinces (aimags). The most significant population centre is the capital Ulaanbaatar, home to approximately 1.5 million people.<sup>4</sup>

Mongolia is situated on a plateau far from any oceans, with average elevation of one and a half kilometers.<sup>5</sup> This gives it an extreme continental climate which varies considerably across the country and between the seasons. Broadly speaking, elevation is lowest in the east of the country, rising to the Altai mountain range in the west. Mongolia's highest point is a mountain peak marking the western border between Mongolia, Russia and China. Travelling from north to south, one would go from Siberian forests and lakes, pass through open steppe grassland and mountains, and ultimately reach the Gobi desert.

The country has long cold winters and short warm summers. Winters are dry and summer rainfall rarely exceeds three hundred and eighty millimeters in the mountains and is less than fifty millimeters in the desert areas.<sup>6</sup> Temperatures in Ulaanbaatar can regularly exceed thirty degrees Celsius from mid-June to mid-August, but are also often below minus thirty degrees Celsius in winter. Spring and autumn are unpredictable and snow can be seen in early June or late August. However, spells of warm weather also occur as early as April and as late as October.

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<sup>1</sup> [Information Mongolia](#)

<sup>2</sup> [CIA, World Factbook](#)

<sup>3</sup> [CIA, World Factbook](#)

<sup>4</sup> [National Statistic Office of Mongolia, http://www.en.nso.mn/index.php](http://www.en.nso.mn/index.php)

<sup>5</sup> [National Geographic, Mongolia Facts](#)

<sup>6</sup> [S. Chuluunkhuyag, The Impact of Climate Change and Human Activity on Mongolian Water Resources](#)

## 1.3 History

The concept of the Mongolian state was founded by Genghis Khan (Chinggis Khaan) when he unified disparate nomadic tribes in 1206. By the time he died, the Mongol Empire stretched from Manchuria to the Caspian Sea. His descendants continued to rule the empire and extended the territory to create the largest land empire ever to exist. Gradually this fragmented until in the seventeenth century, the power of the Mongolian kings was weakened and became vulnerable to invasion. In 1636, Inner Mongolia came under the power of the Qing (*Manchu's*), followed by Outer Mongolia in 1691.

When China was experiencing political turmoil in the early twentieth century, Mongolian nationalists took the opportunity to ally themselves with the Soviet Union. In 1924, Outer Mongolia formally announced full independence as the Mongolian People's Republic (MPR), the world's second Communist state. The MPR was effectively a client state of the Soviet Union, which heavily influenced internal politics. This included negative impacts such as religious purges in the 1930s and forced collectivization. However, with investment from the Soviet Union, significant infrastructure was put in place and levels of education, healthcare and the economic growth improved. Inner Mongolia remains a province of China today.

Mongolia underwent a peaceful transition to democracy, electing the first democratic parliament members in July 1990. The new constitution was established in 1992 and the first president elected in 1993.

## 1.4 Political system

Mongolia is a parliamentary democracy, with key positions held by the President, Prime Minister and Government Ministers. The main chamber of parliament, consisting of 76 members elected on a first-past-the-post system, is called the State Great Khural. Parliamentary elections are held every four years and presidential elections the following year.

Since the early 1990s, the main government parties have been the Mongolian People's Party (MPP) and the Democratic Party (DP). The MPP was formerly called the Mongolian People's Revolutionary Party (MPRP) and was the ruling party throughout the socialist era. The party now calling itself the MPRP is a splinter group, created after the original party changed its name in 2010.

Parliamentary election was held on 29 June 2016 and 72.1 percent of Mongolian voters participated in the election nationwide. Mongolians have sent an undeniably clear message to the former government by voting 65 members of the MPP, a massive 85 percent of the seats in the Parliament.

The most recent presidential election was held in June 2017 and won narrowly by opposition leader Kh. Battulga of the DP. On 4 October 2017 the Mongolian parliament elected U. Khurelsukh of the MPP as Prime Minister, in replacement of the previous same-party Prime Minister J. Erdenebat, following which a new cabinet was appointed.

In November 2018, the Prime Minister U. Khurelsukh survived a vote of no confidence, which was triggered by a corruption scandal surrounding a national SME fund. The vote of no confidence was initiated by the Prime Minister's own party, the Mongolian People's Party (MPP). Despite the MPP's 85 per cent majority in Mongolia's 76-member parliament, he survived the vote with only 40 parliamentarians voting in his favour and 33 against. This factional public infighting is unprecedented for the MPP, a party long seen as a disciplined and united force compared with the rival Democratic Party (DP).<sup>7</sup>

On January 29, 2019, a majority of members of Mongolia's parliamentary body, the State Great Khural, voted to dismiss the speaker of the parliament, Enkhbold Miyegombo due to a series of corruption scandals, including SME fund corruption scandal. On February 1, 2019, Zandanshatar Gombojav was elected as a new speaker through a vote of 95.2 percent by the members of Mongolian parliament.

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<sup>7</sup> <https://www.scmp.com/week-asia/politics/article/2176588/mongolias-pm-has-kept-his-job-country-reeling-fraud-and-political>

## 1.5 Population, language and religion

According to the National Statistics Office, Mongolia's total population was 3.2 million people at the end of 2018<sup>8</sup>. Around 46% of the population lives in Ulaanbaatar. The rest of the population lives in smaller towns and villages or are nomadic/semi-nomadic. Mongolians belong predominantly to the Khalkh ethnic group (80% to 82% of the population, 2010 est.) and there is a significant Kazakh minority of approximately 3.8% of the population<sup>9</sup>, with a very distinct language and culture. The remaining ethnic groups are mostly quite closely related to the Khalkh.

The official language of Mongolia and first language of the vast majority of Mongolian nationals is Khalkh Mongolian (written in the Russian Cyrillic alphabet). However there are other languages and dialects spoken by minority groups, most notably in the province of Bayan-Ulgii, where the Kazakhs are in the majority, and Tuvans also form a significant group. During the socialist period, the first foreign language taught was Russian. However, English is now widely taught and often a requirement to work for international companies. Chinese, Korean, Japanese and German are also popular languages.

It should be noted that Mongolians rarely use their family names, identifying themselves instead by a given name and a patronymic. In Mongolian, the patronymic precedes the given name and is often shown only as an initial – thus Batbold's son Tumur would be called Batboldin Tumur or B. Tumur. However, many Mongolians working in international environments now put their given name first on English language business cards (i.e. Tumur Batbold). The convention is identical for men and women, and women do not change their names on marriage.

Shamanism is the oldest religious tradition in Mongolia and was replaced by Buddhism from the sixteenth century onwards. Under Communism, all religion was suppressed and most temples and monasteries were destroyed. The majority of the population now identifies as Buddhist, with small Shamanist, Christian and Muslim minorities.

## 1.6 Currency

The official currency of Mongolia is the Mongolian tugrik or tögrög (MNT). During the three year period from June 2016 to June 2019, the exchange rate fluctuated from 1,982 to 2,657 MNT:USD<sup>10</sup> and 2,663 to 3,368 MNT:GBP.<sup>11</sup>

Currency is issued by the Central Bank of Mongolia, and the official daily foreign exchange rates can be found at: <https://www.mongolbank.mn/eng/dblistofficialdailyrate.aspx>

## 1.7 Public holidays

There are seven celebrations in Mongolia for which public holidays are observed. Holidays are generally observed on the actual date but if a holiday falls on the weekend, the government may at its discretion declare an additional day off. Similarly, where there is only one day between a public holiday and a weekend, there have been instances where a Saturday has been turned into a working day in lieu of Monday or Friday, allowing employees to take a longer holiday. Typically, those decisions are taken at very short notice, so as an employer or business visitor, one should be aware that working hours around holidays may change as little as a week prior.

Public holidays may also be granted for events such as general elections.

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<sup>8</sup> National Statistic Office of Mongolia, <http://www.en.nso.mn/index.php>

<sup>9</sup> CIA, [Factbook](#)

<sup>10</sup> [Bank of Mongolia](#)

<sup>11</sup> [Bank of Mongolia](#)



Figure 1: Public holidays observed in Mongolia

Public Holidays in Mongolia	
Holiday observed	Date observed
New Year's Day	1 January
Tsagaan Sar (Lunar New Year)	Three days in late January/early February
International Women's Day	8 March
Children's Day	1 June
Naadam	11 – 15 July
Chinggis Khaan's birth date	On the first day of first month of winter according to Lunisolar Calendar (around 8 November)
Mongolian People's Republic day	26 November
Reclaimed independence and national freedom day	29 December

# BUSINESS ENVIRONMENT



## 2 BUSINESS ENVIRONMENT

### 2.1 Mongolian economy overview

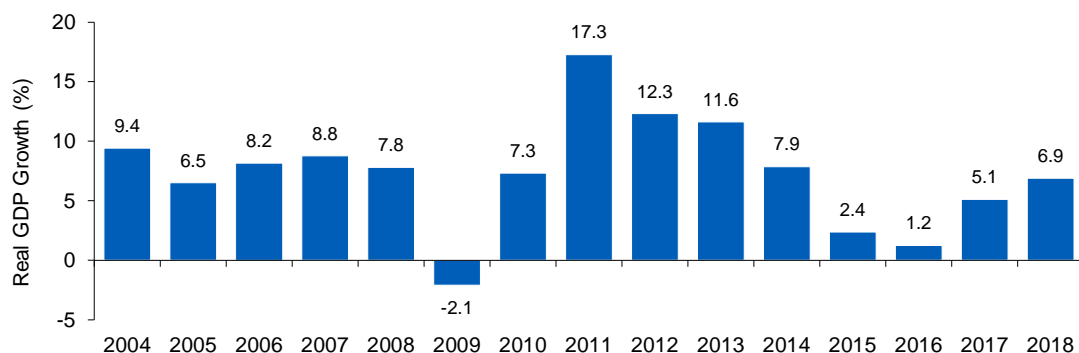
The Mongolian economy has been growing since 2004, apart from the slowdown in 2009, as a result of the global financial crisis. In 2011, Mongolia had the fastest growing gross domestic product (GDP) in the world at 17.3%. GDP growth since then has been declining and plummeted to just 1.2% by 2016 owing to slowing growth in China, decline in international commodity prices and a dispute with a major investor.

By April 2017, Mongolia was on the verge of default on its international debts, with its public debt approaching 100 percent of GDP. Yields on government debt were nearly 20 percent, central bank reserves equated to 2 months of imports and the currency had depreciated over 20 percent.

Mongolian government sought funding from the International Monetary Fund (IMF) and the IMF approved a three-year extended fund facility program (EFF) on 24 May 2017 for US\$ 434 million to support the Government's Economic Recovery Plan, which aims to "stabilize the economy, reduce the fiscal deficit and debt, rebuild foreign exchange reserves, introduce measures to mitigate the boom-bust cycle and promote sustainable and inclusive growth."<sup>12</sup> This amount was part of a broader US\$ 5.5 billion IMF-led financing package, also supported by the ADB, the World Bank, the Government of Korea, Japan International Cooperation Agency (JICA), and the People's Bank of China. The EFF imposes restrictions on the government's activities and sets quantitative performance criteria (QPC), or quantitative targets, that must be met. The meeting of QPCs obligate the Mongolian government to cut expenditure and implement structural reforms to improve the economic growth prospects going forward.

Mongolian economy grew by 5.1% in 2017 recovering better than expected and accelerated further in Q4 2018, rising by 6.9% year-over-year (YoY) on account of strong export performance of coal, the approval of the International Monetary Fund's Economic Recovery Plan package, and inflow of large-scale foreign investment in the second-phase expansion of the country's largest mine.

Figure 2: Mongolia's GDP growth (percentage) from 2004 – 2018



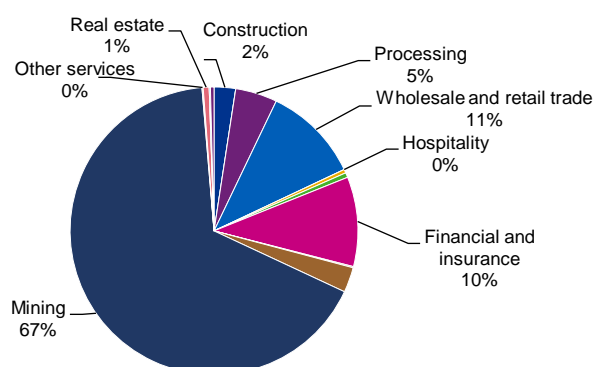
Source: National statistics office of Mongolia

<sup>12</sup> IMF, Staff Report for the Third Review Under the Extended Fund Facility (Apr 2018)

Historically, economic growth in Mongolia has been driven predominantly by the mining sector, which contributed approximately 23.6% of GDP in 2018, according to the National Statistics Office (NSO). Agriculture is the second largest industry and contributed to 10.9% of GDP in 2018.<sup>13</sup>

Foreign direct investment into Mongolia has been increasing significantly up until 2011 when it reached its highest level, amounting to USD 4.6 billion. However, FDI flow into Mongolia has decreased drastically since 2011, falling from USD 4.3 billion in 2012 to USD 94 million in 2015. As a result of ending the dispute with the largest investor and the IMF's involvement, which helped to improve the market sentiment, FDI flow into Mongolia recovered to USD 768 million in 2018.<sup>14</sup>

Figure 3: Mongolia's FDI by industry in 2018



Source: Bank of Mongolia<sup>15</sup>

## 2.2 Economic trading partners

Mongolia is heavily dependent on trade with its immediate neighbors, both for imports and exports.

### Exports

In 2018, Mongolia's main export products (as percent of total exports) are coal (40%), copper concentrate (29%), gold (2%), crude oil (6%), iron ore (5%) and cashmere (5%).

According to the NSO, 92% of total exports in 2018 were to China, versus just 1% to Russia. This has swung considerably from the situation in 1990, when 81% of the exports were to Russia and only 0.7% to China, as a result of the altered political landscape.<sup>16</sup>

### Imports

In 2018, Mongolia's main import products (as a percent of total imports) are fuel (19%), automobiles (9%), industrial equipment (26%) and electricity (2%). The remaining imports are more balanced and largely consist of medicine, communication equipment, food and consumer goods.

In 2018, 34% of total imports came from China and 29% came from Russia.<sup>17</sup> Mongolia's other main import partners are Japan, South Korea, the USA and Germany.

<sup>13</sup> National Statistics Office (NSO), National Accounts data

<sup>14</sup> Bank of Mongolia, External Sector Review, 2011- 2018

<sup>15</sup> Bank of Mongolia, External Sector Review, 2011- 2017

<sup>16</sup> National Statistics Office (NSO), External Trade data

<sup>17</sup> National Statistics Office (NSO), External Trade data

## Trade deficit

During the period from 2011 to 2013, Mongolia's trade deficit averaged USD 2.1 billion. Since 2014 the country has been experiencing trade surplus, which grew from USD 538 million in 2014 to USD 1.1 billion in 2018.

## 2.3 Business culture

Mongolia has a very small population and business is overwhelmingly based in Ulaanbaatar. As such, Mongolia has a small business community in which everyone knows everyone, resulting in reputation and relationships being very important.

In recent years, as more foreign companies have established offices in Mongolia and Mongolians who have studied and worked overseas have been attracted back home, international business practices have begun to have more influence and a lot of meetings and work with international partners are conducted in English. However, you should be prepared for some translation to be required, particularly when dealing with older Mongolians for whom English was not part of their early education. Most companies have employees who are able to translate in meetings and professional translators can also be hired.

There is a strong demand for skilled employees with any international qualifications, experience or language skills. With significant opportunities for the better educated, as more international businesses enter the market and compete for staff, and little in the way of loyalty incentives such as pension plans, employee turnover in many businesses is high.

Dress tends to be smart and it is advisable to err on the side of being too smart rather than appearing too casual, as appearances are taken seriously. Punctuality is also generally expected, although attitudes vary. Meeting times may be changed at short notice. Business cards are exchanged at the start of meetings and it is a good idea to have plenty available, ideally in both English and Mongolian.

Getting to know each other informally over drinks or a meal is common practice and a good way to establish relationships. At celebrations, such as marking the conclusion of a business deal, vodka normally plays a role and you are very likely to be asked to join in with toasts. While it is appreciated if you participate fully, taking a sip is usually acceptable.

Standard business hours in most offices are 9am–6pm Monday-Friday, with an hour for lunch. Many government offices operate from 8am-5pm.

## 2.4 Free trade zones

The first legislation to create free trade zones on the Mongolian border was passed in 1996, with subsequent amendments also being made. However, implementation to provide the requisite infrastructure has stalled repeatedly. Currently, there are 3 free trade zones in Mongolia. The Law on free trade zones was revised in 2015 to enable and promote the cooperation between private and public enterprises.

Altanbulag free trade zone at the Russian border, which covers 500 hectares of land, officially became operational on 22 June 2014. The development of the Zamyn-Uud free trade zone project (by the main crossing on the Chinese border) started in Oct 2010 and is nearing its completion. It covers 900 hectares of land is currently operational. Tsagaannuur free trade zone is located in Bayan-Ulgii province (on the western border with Russia) covering 708.4 hectares. Certain infrastructure investments were made in Tsagaannuur free trade zone, however, it is not yet operational.

## 2.5 Foreign exchange controls

Legislation requires all prices for goods and services within Mongolia to be quoted in MNT and business transactions between Mongolian registered entities to be settled in MNT. It is not unusual for contract values to be quoted in other currencies (predominantly the USD), particularly in

international trade and the tourism industry, although there are risks of having all the income earned from the contract to be seized by authorities as a result of quoting contract prices in foreign currencies.

Apart from the taxes discussed in section five of this guide, there are no restrictions on the repatriation of capital.



INVESTMENT CLIMATE FOR  
FOREIGN DIRECT INVESTMENT

# 3 INVESTMENT CLIMATE FOR FOREIGN DIRECT INVESTMENT

## 3.1 Foreign investment opportunities

Foreign investment into Mongolia has fallen since its peak of USD 4.6 billion in 2011 to USD 768 million in 2018. Drastic growth between 2010 and 2011 was overwhelmingly based on mining, although many other sectors also proved attractive, as demand grew for services which were directly and indirectly required to support the mining companies. Falling global coal and copper prices, unstable legislation towards foreign investment and costs of transporting coal to China, the country's largest export market, have discouraged foreign investors' interest in the country.

However, recent developments made on major mining and transport infrastructure projects are very important steps to renew investors' confidence. Progress in those infrastructure and mega mining projects, particularly Oyu Tolgoi, and the Extended Fund Facility from the IMF and other international donors that have started providing funding as part of the USD 5.5 billion economic recovery package, should increase the inflow of foreign investments and reignite economic growth. In November 2018, the fifth review of IMF supported Extended Fund Facility has been completed. The completion of the fifth review of the facility enabled Mongolia to draw the equivalent of USD 26.2 million, bringing total disbursement under the facility to USD 217.3 million.

## 3.2 Foreign investment legislation

Another positive step towards stable investment climate is the "Investment Law of Mongolia 2013". The law replaced Foreign Investment Law (1993) and Law of Foreign Investment in Business entities in Strategic Sectors (2012). It also resolved certain problems encountered by investors which arose following the legislation on strategic sector investment passed in 2012.

Since the adoption of the new Investment Law, foreign investors have been given the same rights as domestic investors, and provided with a legal framework to protect their investments. To further encourage foreign investment, the Investment Law sets out tax stabilization incentives and other non-tax incentives to promote investment in Mongolia. The new Law also aims to simplify the registration process for setting up a business which only needs to be registered with the General Authority for State Registration (GASR). As a result, the length of time to open a business from entry to operation is shortened by 30 days.

The Law also includes a provision for a national agency responsible for investments (currently the 'National Development Agency') which will focus on promoting, supporting and regulating investment activities and is in charge of issuing stabilization certificates to the investors and monitoring whether such certificate holders are operating in compliance with Mongolian laws and regulations. The applicable rates of the following taxes, fees and duties can be stabilised under stabilisation certificates for period up to 18 years, and may be extended to 27 years for qualifying projects:

- a. Corporate income tax;
- b. Customs duty;
- c. Value added tax; and
- d. Minerals royalty

The definition of a foreign investment entity in Mongolia (as defined in the Investment Law) is an entity established under the laws of Mongolia of which not less than twenty-five percent of the equity is held by a foreign investor (including Mongolian citizens permanently residing overseas). A minimum



initial investment of one hundred thousand US dollars (US\$ 100,000) is required for each foreign investor to register a foreign investment entity.

### 3.3 Commencing business in Mongolia

#### Practical considerations

Business in Mongolia starts and ends in Ulaanbaatar, so any business which is serious about operating in the country needs permanent representation in the city.

Central office locations are convenient for many people, as the city center is compact and most places are within walking distance. Although there is a corresponding cost premium attached to renting an office in the central area, the vacancy and availability of premium offices has increased and their prices fell as a result of the economic downturn of 2014 - 2016. To reach the city center commuters will have to face traffic if not residing in the same area. Ulaanbaatar's traffic is increasingly getting worse due to the number of imported cars which grows without restriction and lately due to the road works that are being implemented to expand the city's road system. Other factors to consider are:

- Where your employees live and how they will commute to work (as public transport can be limited in some areas)
- Proximity to the airport
- Price and quality of hotel accommodation nearby
- Other amenities such as catering facilities

Most Mongolians eat at canteens for lunch, with some workplaces providing food for their employees. Likewise, some companies located out of town may provide free buses for their employees. When considering amenities and perks, it is also worth bearing in mind that many expatriates regard Mongolia as a hardship posting and anything that can be done to reduce this perception will help with recruitment and retention of valuable knowledge and experience.

Local knowledge is essential and professional business and legal advice should be a priority. Good contacts can also help you to find premises and staff as well as assist with administrative matters such as opening bank accounts. The large banks have English speaking staff in their major branches, and some branches are specifically dedicated to serving foreign individuals and commercial customers.

Recruitment in the private sector is becoming more transparent and open to newcomers with the establishment of recruitment agencies. These can be particularly helpful when seeking Mongolians with specific experience and qualifications. However, the continuing importance of personal contacts and recommendations should not be underestimated either.

#### Registration

Mongolian Company Law (Company Law) defines a company as a legal entity whose capital is divided into shares, has its own separate property and has the primary purpose of making a profit. Two types of company structures are permitted under Company Law – Joint Stock Company and Limited Liability Company.

Figure 4: Key differences between the two types of company structures permitted in Mongolia

Mongolian Company Law		
	Joint Stock Company (JSC/XK)	Limited Liability Company (LLC/XXK)
Right to trade shares	Freely traded, unless otherwise agreed by its shareholders	Limited by Company Law and the company's charter
Number of shareholders	Unlimited	Maximum of 50 shareholders at foundation
Minimum equity at registration	No minimum requirement for local company	No minimum requirement for a local company

Establishing a legal entity in Mongolia will involve the following Government offices:

- General Authority for State Registration (GASR)
- National Development Agency (NDA)
- Mongolian Tax Authority (MTA)
- Ministry of Finance (MOF)

In terms of the process, permission must first be requested from the GASR for the proposed company name. Once obtained, proof of equity must be presented, after which an application (along with the required supporting documentation) is submitted to the GASR and a registration certificate is issued to the company. Then, the company should be registered at MTA and the corresponding affiliated agency of the MOF for tax compliance and submission of financial statements.

If foreign state-owned legal entities (FSLE), which hold 33 percentage or more interest in a Mongolian incorporated entity, operate in the following sectors they must go through an approval process at NDA:

- Mining;
- Banking and finance; and
- Media and telecommunications.

We note that a number of documents is required to support the application being made to the NDA including a business plan or feasibility study for each proposed business activity and details of investors. NDA makes the decision within 45 days of receipt of the application.

In addition, to establish any type of a foreign-invested entity in Mongolia, a minimum start-up investment of USD one-hundred thousand is required.

### **Mergers, acquisitions and restructurings**

The Company Law recognizes that a company may be established through reorganization of another entity, which may take the form of merger, consolidation, division, separation or transformation. We discuss the requirements for each type of restructuring below, however any such restructuring must be authorized through a shareholder meeting resolution and the reorganized company must then be registered with the relevant authorities. In addition, the company must inform its creditors (and others that it conducts business with) of the decision within fifteen days from the date of reorganization decision.

Consolidation refers to the termination of two or more companies and the transfer of the rights, obligations and liabilities of those companies to a newly established company, versus merger, which involves the termination of one company only. In either case, the consolidation or merger must be approved by the majority of the shareholder votes at the shareholder meetings.

Division involves the termination of the activities of a company in order to form two or more new companies, while separation refers to the divestment of some of the assets, rights and obligations of a company to a newly established company, without terminating the original company. Again, the approval of the majority of shareholder votes is required in both cases.

In contrast, transformation does not strictly involve the creation of a new company, as it is the transformation of a public company to a limited liability company or vice versa. Shareholder approval (by the majority) is also required.

### **Exit strategy**

A company may be liquidated with agreement of the shareholders or by a judgment in accordance with the Civil Code, Company Law and other related legislation. Grounds for compulsory liquidation

include bankruptcy, inexistence of shareholders and other grounds as stated by law. With respect to voluntary liquidation, the Board of Directors (or the Executive Team in the absence of the Board) must prepare a liquidation plan (to be approved by the shareholders) that includes the appointment of a liquidation committee, settlement of debts and liabilities and distribution of any remaining assets to the shareholders. Liquidation is a complex procedure and seeking professional advice is recommended.

### 3.4 Financing

Foreign invested companies are free to seek local financing, either by entering into a business jointly with Mongolian investors or directly from Mongolian financial institutions.

Since Mongolia’s first private bank opened in 1990, the banking and financial services industry has developed rapidly and now offers a wide variety of products. Currently, there are thirteen commercial banks, of which Khan Bank, Trade and Development Bank and Golomt Bank dominate in terms of lending. No foreign banks are currently fully licensed in Mongolia. Commercial interest rates are high – as an example, Khan Bank (as of October 2018) was offering weighted average interest rate of 17.4% per annum on MNT loans to individuals and businesses, and 8.5.% on loans in foreign currency.<sup>18</sup>

The Mongolian Stock Exchange (MSE) established a partnership with the London Stock Exchange Group (LSEG) in 2011, and the two exchanges continue to cooperate to build in the MSE’s capabilities.

As of June 2019, MSE has a total of 197 member companies listed<sup>19</sup>. Below is the summary of total trading on the MSE that took place in 2018.

Total trading on the MSE				
Type of security		Trade volume (in million)	Trade value (in MNT billion)	Trade value (in USD million)
Shares	Primary market	240.3	31.4	11.92
	Secondary market	426.6	178.6	67.78
Government bonds	Primary market	-	-	-
	Secondary market	0.3	33.5	12.71
Corporate bonds	Primary market	-	-	-
	Secondary market	0.01	0.6	0.23
<b>Total</b>		<b>667.2</b>	<b>244.1</b>	<b>92.64</b>

Source: Mongolian Stock Exchange<sup>20</sup>

Note: Trade value in USD million estimated based on the Bank of Mongolia exchange rate as at 14 Dec 2018

### 3.5 Intellectual property

Mongolia is a member of the World Intellectual Property Organization (WIPO). The key laws protecting Intellectual Property (IP) in Mongolia are:

- Copyright Law
- Law of Mongolia on Trade Names and Trademarks (Trade Names and Trademarks Law)
- Patent Law

Intellectual property rights are registered with the GASR and the Intellectual Property Office of Mongolia (IPOM) is responsible for policy implementation.

#### Copyright

Copyright Law in Mongolia encompasses “any scientific, literary or artistic works involving creative activity of authors”, including “all types of scientific and literary works, musical works whether with

<sup>18</sup> [Monthly Statistical Bulletin, Bank of Mongolia, October 2018](#)

<sup>19</sup> [Mongolian Stock Exchange \(MSE\)](#)

<sup>20</sup> [Mongolian Stock Exchange \(MSE\), Securities Trade Report \(2017\)](#)

or without lyrics, works of fine art, architecture and sculptures, photographic works and works created by methods similar to photography”...etc. However, it does not protect such items as official texts of law, their translations, “any news or information with facts and figures for the purpose of reporting the current events and results thereof” and “any ideas, methods, procedures, scientific discoveries and mathematical concepts”.<sup>21</sup>

The author should register their work at the IPOM to ensure copyright protection from the date of creation until fifty years after the author’s death. Reproduction, publication, distribution, modification into derivative work and rental of work is permitted only with the author’s consent.

### Trademarks and trade names

Trademarks and trade names must be registered with the IPOM and will be protected from the date of registration under the Trade Names and Trademarks Law. Broadly, any trademark can be used as long as it is not offensive and does not closely resemble a common image, national symbol or another protected image or trademark. Trade names must be written in the Cyrillic alphabet but can be registered alongside in the Latin alphabet.

In order to register a trade name, a copy of the State registration certificate for the entity is required. On acceptance, the IPOM enters the trade name or trademark into the State register, issues a certificate and stores the application form in the database of trademarks and trade names. Certificates are valid for ten years and can subsequently be extended by another 10 years.

To register a trademark, an application form and ten copies of a graphical representation of the trademark is required to be submitted to the IPOM.

### Patents

In order to be eligible for a patent, an invention must involve an “inventive step” which has technological advantages over the existing technology available as well as being industrially applicable. If granted by the IPOM, protection is valid from the date it is granted. The length of validity depends on the type of patent or certificate obtained.

Figure 5: Validity of patents

Patent Law	
Type of patent/certificate	Validity
Patent for invention	20 years
Patent for industrial design	10 years
Innovation certificate	5 years

<sup>21</sup> [Law of Mongolia on Copyright and Related Rights](#)



REPORTING, AUDITING AND THE  
REGULATORY ENVIRONMENT

# 4 REPORTING, AUDITING AND THE REGULATORY ENVIRONMENT

## 4.1 Financial reporting

Mongolia has had to catch up rapidly in respect of its financial reporting requirements since making the transition to the market economy. Mongolia passed its first Accounting Law in 1997, with subsequent amendments in 2001, 2003, 2005, 2006, 2011 and 2012 and a full replacement in 2015. International Financial Reporting Standards (IFRS) or IFRS for Small and Medium Enterprises (SMEs) have been theoretically adopted for all private entities, although in practice, many enterprises do not comply due to the cost and difficulty of converting.

Listed companies, companies operating in exploration or mining, and companies classified as large by the Ministry of Finance are among those required to apply IFRS in full. On 4 February 2016, the Ministry of Finance issued a regulation stating that companies with total assets greater than MNT 0.5 billion or revenues over MNT 1.5 billion would be classified as large entities required to apply full IFRS for their reporting.

It should be noted that certain other provisions within the Accounting Law may create conflicts between IFRS and other legal requirements for some companies. In particular, the Accounting Law requires that all entities registered in Mongolia maintain their accounting records in Mongolian language and currency. For some entities, particularly those operating internationally, functional currency under IFRS may not be the MNT, a scenario which should be identified and dealt with at the earliest opportunity in order to mitigate against later complications with the authorities. In this regard, on 18 July 2017, the Ministry of Finance issued a regulation for procedures of determining, changing functional currency and presenting financial statements. However, the conditions and timing of change in functional currency differ from IFRS. According to this regulation, in order to change its functional currency the entity shall provide proof that:

- Whether it affects the sale price and more than 75 percent of total sales are in that currency;
- Whether it affects to determine the cost of sales, the purchase that comprises of operating costs and whether more than 75 percent of the total transactions are in that currency;
- Whether the currency is 90 percent of total funding;
- Identify and mention the other factors and circumstances that are used to determine functional currency.

A second requirement which deviates somewhat from IFRS is the requirement to consolidate. Under the 2015 Accounting Law, any entity with a subsidiary is required to prepare consolidated financial statements, unless it is itself included in a larger consolidation under a Mongolian parent company. Depending upon the group structure, this may differ from the requirement under IFRS and therefore should be assessed with care.

By law, the financial year is from 1 January to 31 December. Financial statements are required to be submitted to the Ministry of Finance, as outlined in Figure 6 below.

Figure 6: Financial reporting deadlines

Accounting Law		
Period	Applicable to	Submission date
Half-year ended 30 June	Companies applying IFRS	20 July
Year ended 31 December	All companies	10 February
Year ended 31 December (consolidated)	Parent companies with requirement to consolidate	1 March

Under Company Law, the financial statements required to be lodged include a balance sheet, income statement, cash flow statement, changes in equity statement, a detailed list of all conflict of interest transactions and notes to the accounts.

All the above-listed reports are now required to be submitted electronically through the Ministry of Finance's on-line system. Paper filings are still accepted if a company chooses to make them in addition to electronic submissions, but are not mandatory and cannot be used to in place of an electronic version.

## 4.2 Auditing

The 2015 Auditing Law, effective from 1 January 2016, lists six categories of entities which require annual statutory audits:

- All entities required under the Accounting Law to apply full IFRS to their financial statements (see above)
- Entities presenting consolidated financial statements
- Entities that are being restructured, liquidated or planning to sell all their assets at auction
- Entities with foreign investment
- Not-for-profit foundations operating for the public benefit, as defined under Article 36.2 of the Civil Code
- Any other entities or organizations required to be audited under an international treaty to which Mongolia is a party

The Auditing Law requires mandatory five-yearly rotation of auditors, with a minimum three year window before the previous auditor can be re-engaged. This has been increased in the new Law from the previous three-year rotation requirement. Audit and non-audit services cannot be obtained from the same provider at the same time, and in order for a statutory audit opinion to be recognized in Mongolia, the auditing firm must hold a local audit license.

Among private enterprises, the strictest audit deadlines apply for banks, insurance companies and non-banking financial institutions (NBFIs), which must have their annual financial statements audited and published by 31 March. The Auditing Law states a deadline of 30 April for other private entities; however, interpretation advice from the Ministry of Finance to audit firms has been that in order to be consistent with the timeframe permitted for changes to tax filings, entities may instead submit unaudited financial statement by 30 April together with a 'progress letter' from the auditor stating that the auditor has been engaged and the audit is in progress. It is expected that audited financial statements will then be accepted until 31 December.

Other than the annual statutory audit, audited financial statements may also be required to comply with requirements for fundraising or restructuring activities. For example, prior to an initial public offering (IPO) or disposal of the business.

## 4.3 Regulatory environment

### Competition law

The Competition Law of Mongolia (Competition Law) is enforced through the Authority for Fair Competition and Consumer Protection (AFCCP). Its key provisions prohibit activities by any entity involving the dissemination of false information about its own products, concealing quality deficiencies and carrying out or encouraging activities harmful to competitors.

In addition, there is a specific provision within the legislation relating to activities of 'dominant entities' which are defined as any entity or group of entities, with a market share exceeding one-third. The provision covers matters such as price manipulation, abuse of a dominant position, cartels and unfair practices against competitors.

### Corporate governance

Company Law establishes the responsibilities and liabilities of governing persons of a company, who include the Board of Directors and the Executive Team. Corporate governance duties include:

- Acting in the best interests of the company
- Avoiding conflicts of interest
- Maintaining confidentiality

Governing persons can be held personally liable for damage arising from their failure for meeting these requirements.

The company charter sets out the powers of the shareholders and the Board of Directors where these are not dictated by law.

### Shareholders

Shareholders have the highest governing authority of a company, by voting on resolutions at the shareholder meeting. The shareholder meeting has exclusive authority over matters including:

- Amendments to the company charter
- Company restructuring such as mergers, consolidations, divisions and liquidations
- Equity transactions
- Board of Directors appointments and terminations
- Approval of Directors' reports with respect to annual performance and financial statements
- Signing a contract with the appointed external auditor

Shareholder meetings must be held annually by the Board of Directors and within four months of the financial year end. Further, Company Law prescribes the process to be followed in organizing the meeting. Special shareholder meetings may be called for a range of circumstances and are required under certain situations, such as where the company is making significant losses or has substantial debt. Over fifty percent of the eligible voting shares must be represented for quorum to be met at a shareholder meeting. However, the company charter may set the threshold higher.

### Board of Directors

The role of the Board of Directors is to govern the company between shareholders' meetings. Joint Stock companies are required to have a Board of Directors. However, limited liability companies may opt out of this requirement. Public companies and joint stock companies must have a minimum of nine members on its Board of Directors and one-third of these must be independent.

The Board has authority over matters such as:

- Company activities and policies
- Issuance of securities and authorized shares



- Appointment of the external auditor
- Preparation of the annual report and financial statements
- Appointing the executive body to conduct the daily business of the company

By default, Board of Director meetings should be held monthly, unless otherwise stated in the company charter and minutes must be kept of all meetings.

### **Land ownership and use**

The right to own land in Mongolia is granted exclusively to citizens of Mongolia. If a piece of land is not owned by a Mongolian citizen, it is considered to be the property of the Government.

In accordance with the Law on Land, foreign business entities, organizations and nationals can use Mongolian land for a specific purpose, time and condition. A fee is payable for the use of Mongolian land which is determined and approved by the Government based on several factors, including size and location of the land. Special legislative provisions exist for regulating subsoil and mining activities.

### **Anti-corruption law**

The Anti-corruption Law of Mongolia (Anti-corruption Law) was ratified in 2006. To help prevent public officials from using their positions for personal gain, the Anti-corruption Law established an independent agency for preventing, detecting and investigating corruption cases. Further, business entities, organizations and private citizens have a legislative right to report corruption cases to the independent agency. Based on its review, the independent agency is responsible for taking appropriate further action, including opening formal inquiries and investigations.

### **Arbitration**

Legal persons or entities can agree to resolve civil disputes through arbitration, in accordance with the Arbitration Law of Mongolia. The decision made by an arbitrator is binding in nature and generally cannot be subjected to judicial review and/or appeal. It is noted that, although the legal framework for arbitration exists, the system is not widely used in Mongolia.

Mongolia is a signatory of the Convention of New York of June 10, 1958 and as such, Mongolia recognizes and enforces foreign arbitration decisions. Similarly, arbitration decisions made in Mongolia should be recognized and enforced abroad.



TAXATION

# 5 TAXATION

This section is intended to be a useful indication of the types of taxes and rates imposed on businesses operating in Mongolia. It should be noted that this information is not comprehensive and is subject to tax legislation change. Local advice should be obtained to ensure that your information is complete and current.

## 5.1 General tax law

### Overview

The purpose of the General Tax Law (the Tax Law) in Mongolia is to:

- Establish legal grounds for the introduction, establishment, imposition, reporting, payment, control and collection of taxes in Mongolia
- Define the rights, duties and liabilities of taxpayers and tax authorities
- Regulate relations arising between taxpayers and tax authorities

All other laws and regulations relating to taxation in Mongolia should be read in conjunction with the Tax Law.

The Mongolian tax system comprises of taxes, fees and payments and are categorized as either state or local taxes. There are twelve types of state taxes and fourteen types of local taxes, controlled by regional Government.

Figure 7: State and local taxes in Mongolia

General Tax Law	
State taxes	Local taxes
Corporate income tax	Individual income tax
Customs duty	Income tax on individuals engaged in work and services, income which cannot be immediately determined
Value-added tax (VAT)	Immovable property tax
Excise tax	State stamp duty (Others)
Tax on petroleum and diesel fuel	Tax on auto and self-propelling vehicles
Royalty	Payment on permit to use natural resources other than minerals
Fees for mineral exploration and mining licenses	Fees on use of commonly occurring minerals
Air pollution payment	Land fees
Stamp duty (Article 11.2 of the Stamp Duty Law of Mongolia)	Gun duty
Water pollution payment	Capital city tax
Tax on petroleum oil reserve usage	Tax on dogs
Fees for petroleum oil exploration and licenses	Tax on inheritance and gifts
	Payment on waste services
	Fees for usage of natural resources

## Rights and duties – taxpayers and tax authorities

The Tax Law sets out the responsibilities of taxpayers which include:

- Registration with the tax authority
- Providing required information and documentation to the tax authority
- Accurately maintaining records
- Withhold taxes
- Timely payments and filings

In addition to the above, there are a number of specific requirements which a good Mongolian accountant should be aware of, such as the need to use a cash register that meets certain standards.

The Tax Law also confers on taxpayers the right to carry out their activities without undue interference from the authorities and to have their confidentiality respected. However, information may be published by the tax authority in relation to taxpayers proven to have evaded taxes, violated tax legislation or who are being sought after in relation to such offences. Further, taxpayers have the right to:

- Obtain information and advice from the tax authority
- Demand refunds or deductions on overpaid taxes
- Make complaints and obtain explanations from the authorities
- Demand compliance from the authorities
- Obtain advice and assistance from legal tax consultants

The tax authority and state tax inspectors are required under the Tax Law to assist taxpayers in their duties by providing services such as public information, instructions and training. The time limit for the tax office to impose taxes in arrears, fines and penalties is five years (however, this varies depending on the type of tax and when the return or payment was due).

## Tax reporting and payments

The tax year is from 1 January to 31 December. Corporate income tax reporting deadlines are detailed in Figure 8. A taxpayer must accurately determine and self-assess its income and tax due based on quarter-to-date and year-to-date tax statements prepared under accrual accounting and make payments to the Mongolian Tax Authority (MTA)

Figure 8: Tax reporting

Corporate income tax	
Quarter ending	Submission date
31 March	20 April
30 June	20 July
30 September	20 October
31 December (annual return)	10 February

For taxes other than corporate tax, specific reporting and payment requirements are established in the applicable legislation governing that tax type.

## Tax audits

Once tax returns are submitted to the tax authority, they are reviewed for factors such as internal consistency, calculation errors, timely payments and compliance. Additionally, audits are conducted by the tax authority to test the accuracy and completeness of reporting. At least ten days' notice should be given ahead of an audit.

Taxpayers are required to grant tax inspectors full access during these audits. The owner of the property or business should also be present or represented.

## Debt collection

Tax Law also prescribes tax registration and settlement, collection of overdue taxes and penalties for non-compliance. Essentially, the tax authority is responsible for registering all income and refunds due. Any late tax payments, penalties and fines are classified as 'tax debts' (which are required to be settled in a particular order). Fines are imposed on late tax payments, as well as overpayments made through the fault of the tax authorities. The fine rates are approved by the Government of Mongolia on an annual basis.

To settle 'tax debts' the tax authority may recover the amount owing from the taxpayer's bank account, deduct from the taxpayer's income or sell the taxpayer's assets (or use them as collateral). Ultimately, the tax authority may file a claim with the courts.

The penalty for late payment is currently 0.1% of the outstanding balance per day. Compensation for loss on the late payment is approved by the Government of Mongolia each year. The penalty for concealing taxable income through negligence or fraud (where criminal charges are not brought) is 30% of the tax payable.

## 5.2 Corporate tax

### Overview of the corporate tax system

Taxpayers in Mongolia are separated into two separate classifications – resident and non-resident taxpayers, with different rates applying to various revenue streams depending on whether the entity is a tax resident in Mongolia.

- A resident taxpayer is an entity that resides in Mongolia on a permanent basis and comprises of entities established under Mongolian law and foreign entities that have their headquarters in Mongolia.
- A non-resident taxpayer is an entity that undertakes business activities in Mongolia through a permanent establishment (PE) or foreign entities that earn income sourced in Mongolia.

We outline the applicable tax rates for taxpayers considered Mongolian tax residents below.

The payment date requirements vary depending on the type of income. Local advice should be sought to ensure that you comply with the various payment date requirements.

Figure 9: Taxpayer that resides in Mongolia on a permanent basis – tax rates for common income sources

Corporate income tax		
Type of income		Tax rate
1	Annual taxable income between MNT 0 – 3 billion	10%
	Annual taxable income greater than MNT 3 billion	MNT 300 million plus 25% of income exceeding MNT 3 billion
2	Income from interest	10%
3	Income from dividends	10%
4	Income from royalties	10%
5	Income from the sale of rights	30%
6	Income from the sale of immovable property	2%

For non-resident taxpayers who earns Mongolian sourced income is taxed at 20%. Examples of non-resident income are outlined on the following page. These non-resident tax rates may be reduced if a double taxation agreement (DTA) is in place between Mongolia and the corresponding state.

Further, non-residents are obliged to register for tax purposes within 30 days commencing business in Mongolia if the PE is created unless otherwise provided in relevant DTA.

Figure 10: Taxpayer that does not reside in Mongolia on a permanent basis – tax rates for common income sources

Corporate income tax	
Type of income	Tax rate
Income from dividends	20%
Income from interest and payment for issuing a guarantee	20%
Income from royalties	20%
Income from leases, including tangible/intangible assets, financial lease interest and payment of administrative expenses	20%
Income from goods sold, work performed and services provided in Mongolia	20%
Income earned from service provided, work performed directly or electronically sourced from Mongolia	20%
Permanent Establishment profit repatriation (withholding tax)	20%
Income from interest of bonds that were issued by commercial banks of Mongolia	10%

## Taxable income

Taxable income in Mongolia is derived by determining gross taxable income and subtracting deductible expenditure and tax exempt income.

Gross taxable income includes income from business activities, income from property (i.e. dividends and royalties) and income from the sale of property.

Deductible expenses are only permitted for resident taxpayers and include expenditure such as:

- Inventory
- Depreciation
- Staff expenditure
- Insurance premiums
- Loan interest

Certain income is considered tax exempt for resident taxpayers under the Tax Law. For non-resident taxpayers certain income may be tax exempt if it is derived from a product-sharing contract in the oil industry.

## Losses

Generally losses can be deducted from taxable income for up to two years following the tax year in which the losses were incurred. The annual amount of losses to be carried forward shall not exceed 50 percent of taxable income in the tax year.

However, infrastructure and mining industry is allowed to carry forward their losses against 100 percent of their taxable income for up to 4-8 subsequent years depending on the investment size as regulated by Government.

### 5.3 Indirect Transfer Rules

Mongolia has adopted various amendments to the Mongolian Taxation laws which will impose 30% of CIT on the value of minerals licenses and land rights if the ultimate beneficial owner of a legal entity which holds the mineral license and land right is changed resulting from share transfer transactions. This ruling is effective from 1 January 2018 and is expected to change.

### 5.4 Transfer pricing

Transactions between related parties must be at fair value for tax purposes. Where the tax authority does not consider that a transaction has been undertaken at fair value, the tax authority has the power to determine appropriate fair value, using an Actual pricing methodology approved by the Government.

Under the Tax Law of Mongolia, "Related parties" means entities authorized to directly and indirectly participate in management, control and property rights of any foreign and Mongolian legal entities. Entities will be considered 'related parties' for tax purposes where any of the following criteria is met:

- An entity that holds at least 20% of the common stock of another entity
- An entity that has the right to receive at least 20% of the dividends or distributions from the other entity
- An entity that has the right to appoint at least 20% of the management or otherwise determine the other entity's policies

### 5.5 Double tax agreements

Mongolia recognises double tax agreements (DTAs) with various jurisdictions, including its key trading partners; China and Russia. We provide a list of Mongolia's DTA partners in Appendix One.

It should be noted that the Mongolian Government has been reconsidering its position with respect to a number of DTAs. Accordingly, anyone looking to place any reliance on the provisions of a DTA in assessing any investment decision would be advised to ensure that they seek the most up to date advice.

### 5.6 Tax incentives

A limited number of tax incentives are available to entities that are engaged in the agricultural and mining industries in Mongolia. The investment law specifies tax incentives available to investors such as exemption from certain taxes, accelerated depreciation and amortization for tax purposes, tax loss carry forward, and the deduction of employee training expenses from taxable income. More details of tax incentives for investors including Tax Stabilization are available on Investment climate section (page 16) of this publication.

In addition to that, corporate income tax credits are available on the following types of income earned in Mongolia:

- Interest on bonds of the Government or the Development Bank of Mongolia
- Income derived from sale of its portion of product and earned by non-resident but operates in Mongolia under a product-sharing contract in oil industry
- Net income of a cooperative earned from sale of products marketed for its members
- Income of the economic entity that has more than 25 workers two thirds or more than two thirds of whom are with impaired vision
- Income from equipment and spare parts produced and sold within the territory of Mongolia, intended for use in the production line of small and medium enterprises
- Income of loan guarantee agencies derived from primary activities as specified in law
- Income from sale of eco-friendly equipment and technology that preserves natural resource, reduces environmental pollution and eliminates hazardous waste

- Income from sale of domestically produced innovation goods, work and service by a start-up company specified in the Law on Innovation for the period of 3 years from the registration date with the IPSRO.
- Income from premium charged by Savings deposit insurance fund
- Income from investment fund specified on Securities Law of Mongolia
- Tax credits related with certain types of investment made into Free Trade zones of Mongolia

There has been a general move towards equality of treatment between national and foreign investors and a number of historical tax incentives that were available for foreign investment have been withdrawn in recent years.

## 5.7 VAT

### Overview

A VAT withholding agent may be a legal entity, individual or permanent establishment of a foreign entity, who is selling goods, services and works subject to VAT. The VAT payer is an end user i.e. the person/entity who ultimately bears the VAT cost.

VAT is imposed on goods imported into and exported out of Mongolia and goods produced or sold, work performed or services provided in Mongolia. The standard rate for VAT in Mongolia is 10% of the taxable value.

The timing of imposition is determined as taking place at the earlier of:

- The day when the seller receives payment for the sale of the goods, work or services;
- The day in which the seller issues an invoice
- The day the buyer purchases the goods, work or services

The taxable amount of VAT for goods produced and sold, work performed and services provided in Mongolia is usually the amount invoiced by the seller. However, where this is not available, or the tax authority believes that the price charged is higher or lower than market value, the tax authority may determine the fair market value and use this to determine the amount of VAT.

### Registration

A VAT withholding agent is any of the following:

- An entity or individual that produces or sells goods, performs work or provides services in Mongolia
- An entity that imports or exports goods
- A permanent establishment of a foreign company with sales revenue (of goods sold, work performed or services provided) of 50 million MNT or more

The VAT registration threshold is 50 million MNT. Revenue from sales of fixed assets should not be counted when determining whether the threshold has been breached. This should help to reduce the compliance obligations for some smaller organizations. If an entity or individual exceeds the threshold (as reported in their income tax returns), Registration request must be submitted to the tax authority within ten working days of exceeding the threshold and the tax authority will issue a VAT certificate to the entity or individual confirming VAT registration. Tax is imposed from the day the tax authority issues the VAT certificate.

An entity or individual may voluntarily register for VAT when sales revenue from primary production, work or provision of services exceeds 10 million MNT. Group VAT registration is not available.



## **VAT returns and payment**

VAT returns are required to be submitted to the tax authority on a monthly basis and the tax report submitted by the VAT payer must observe the approved standard format. Payment is due the same day as the VAT return.

## **Zero Rated VAT application**

Zero rated supplies include exports of goods and services; international transport services; services related to international air travel; services provided in a foreign country (including tax-exempt services); services provided to foreign citizen not residing in Mongolia during provision of services (including tax-exempt services); and mining final products exported. Please kindly note that local advice should be sought on which items will be subject to Zero rated VAT regime.

## **Exemptions**

Certain goods and services are exempt from the VAT regime in Mongolia including sale of gold to BOM and commercial banks with permission, certain food products produced domestically, education services, medical services and specific financial services. As such, local advice should be sought on which items will be VAT exempt.

## **VAT on Fixed Assets**

VAT incurred on the purchase or importing of fixed asset shall not be credited against VAT due. Previously, this was creditable, and as such the change could represent a significant additional cost. It is not yet clear whether this will include VAT on lease premiums relating to fixed assets

## **VAT on Exploration**

Input VAT incurred during the exploration stage is no longer creditable. Again, this could represent a significant additional cost.

## **Integrated system**

Under the updated VAT law in 2016, VAT data will be shared centrally using an integrated electronic database system. All registered VAT withholding agents will have user account via which information should be uploaded.

Registered end-users may receive a 20% VAT refund where the following conditions are met:

- Goods, work or services are purchased from VAT withholding agents;
- Purchases are registered at the tax authorities;
- Purchased goods, work or services are taxed in accordance with the tax laws and regulations;
- Purchases are registered with the registration device as part of the new integrated system

Additionally end users may receive a reward under a lottery style arrangement at the year end.

## **5.8 Immovable property tax**

Immovable property tax applies to land and other immovable property at a rate of 0.6% to 1% depending on the location, size, and supply and demand of the property. The value of immovable property shall be determined by the valuation of that property as registered with the Immovable property state registry. If there is no such registration, the value shall be determined by the insured sum of the property. If registration or insured valuation are both not available, the value shall be established as the book value in the accounting records. Tax is calculated on an annual basis and paid in either quarterly installments (for entities) or annually (by individuals).

A number of exemptions and significant reductions apply, most notably in relation to buildings or land used for public purposes, by the state, for agriculture or as private residences or buildings built and registered in Free Trade Zones. However, exemptions may also be available for companies operating in industrial parks.

## 5.9 Excise taxes

Excise taxes in Mongolia are imposed on:

- Alcohol
- Tobacco
- Petroleum products
- Passenger vehicles
- Gaming equipment and activities

Key exemptions for companies are available on goods produced domestically for export, duty-free alcohol and tobacco, snuff tobacco and hybrid automobiles. Rates are dependent on the type of product and in some cases are higher for imports. Excise tax duties were set at flat rates in USD per unit of product up until 23 January 2015. Since the amendment made in the Excise Tax Law on that date, excise duties are set in MNT.

## 5.10 Customs duty

### Imports

The MTA is responsible for administering import laws and regulations. The majority of imports do not require a special license or approval, but are required to be declared to Customs, along with a description and value of goods imported.

Transaction value is the most commonly used method of valuation. Alternative valuation methods include:

- Transaction value for identical merchandise
- Transaction value for similar merchandise
- Deductive method
- Computed method

Based on this information, Customs will determine the amount of tariff to be paid on the import. Tariff rates are established and approved by the Government. Import tariffs can be regular, favored or preferential. As such, depending on the country from which a product is imported, a favored and/or preferential tariff rate may apply in lieu of a regular rate.

### Exports

Generally speaking, most exports are not subject to tax. In theory, an export tax exists but it is applied to a limited number of products only. Most exports do not require a special license or approval, however exporting the following items is restricted (amongst others):

- Uranium
- Firearms
- Certain dangerous and poisonous chemicals

## 5.11 Mining royalties

Under the Mongolian Mineral Law, royalties are payable on the sale of minerals both within Mongolia and abroad. The amount of royalty payable is based on a standard flat-rate royalty and may also include a surtax royalty, with percentages applied depending upon the type of commodity and the market price. The Ministry of Mineral Resources and Energy is responsible for determining the reference price to be applied.

## 5.12 Personal income tax

Personal income tax is regulated by the Personal Income Tax Law of Mongolia (the Personal Tax Law).

### Taxpayers

Personal taxpayers in Mongolia are classified as resident and non-resident taxpayers. A resident taxpayer of Mongolia is a taxpayer who has either:

- A fixed place of residence in Mongolia
- A presence in Mongolia for a period and/or periods exceeding 183 days in a given tax year
- Mongolian state officials currently appointed in a foreign country

Conversely, a non-resident taxpayer is a person who does not have a fixed place of residence in Mongolia and has not been present in Mongolia for 183 days in a given tax year. Additionally, foreigners who work for foreign embassies or consular offices, or for the United Nations and its affiliated organizations, are considered non-resident.

A resident taxpayer is required to pay taxes in Mongolia on both their taxable income earned in Mongolia and overseas income (i.e. their worldwide income). Non-resident taxpayers are only required to pay taxes on taxable income earned in Mongolia.

### Tax rates

The Personal Income Tax Law defines the different types of personal income subject to the tax and establishes the tax rate applicable for each income type. Personal Income Tax (PIT) rate on employment and personal investment income for resident taxpayer is flat 10% rate.

Tax rate on Mongolian-sourced income (i.e. including employment income, fringe benefits, property income, dividend, business income and interest income) for non-residents is flat 20% tax rate.

### Exemptions

The personal tax credit of up to MNT 2400,000 applies depending on amount of annual taxable employment income. However there is no tax credit available for individuals who earn employment income more than MNT 36,000,000 per annum. Certain income is tax exempt under the Personal Tax Law, including:

- Certain employee pensions, benefits, payments, discounts and reimbursements
- Per-diem payments
- Insurance proceeds
- Payments, interest and penalties for Government notes payable (i.e. Government bonds)

Please note that this is not a complete list but an example of common tax exempt income for individuals.

# 6 Tax Reform

On 22 March 2019, the tax bills on revising the General Tax Law, the Corporate Income Tax law, the Value Added Tax law and Personal Income Tax law were passed by the Mongolian Parliament. These changes will come into force on 1 January 2020. Kindly review to see how your organization may be impacted. In case of any queries, please feel free to contact us.

## 6.1 General Tax Law

Please refer to below a brief summary of the changes introduced in the new General Tax Law.

## Ultimate beneficial owner

The definition 'Ultimate beneficial owner' has been added to the General tax law.

'Ultimate beneficial owner' is defined as the person or entity who ultimately owns the legal entity which owns mineral mining, oil or radioactive minerals or land licenses through direct or indirect ownership of 30 percent or more of the shares, or voting rights, or ownership interest in that entity.

## The statute of limitations

The statute of limitations has been amended from 5 years to 4 years and the scope has been expanded to include the following:

- Imposition of taxes in arrears, fines and penalties;
- Application for tax incentives or tax exemption;
- Carry forward of tax losses; and
- Verification of VAT imposition and payments.

## Related party

Definition of 'related party' has been modified to broaden its scope in the new General Tax Law.

If an entity has influence over economic outcome and terms of transaction conducted with other entity through its direct and indirect participation rights in such other entity's asset, control and management activity, they shall be considered as related parties. Related parties would include the followings, but not limited to:

- Taxpayers' family members;
- Members of the group entities;
- Person or entity directly or indirectly holds 20 percent or more of the shares, participation rights and voting rights in other entities;
- Person or entity has the right to directly or indirectly receive 20 percent or more of the dividends or distributions;
- Branch and permanent establishments of related entities.

## Transfer pricing reporting

Transfer pricing reporting requirements now include the following:

- Annual Transactional File
- Local File
- Master File
- Country-by-country reporting

## Tax collection and enforcement

Tax Authority shall carry out tax collection activities in the following order:

- Tax levy notice
- Commencement of collection in non-dispute procedure
- Seize and levy the monetary assets up to the amount due (i.e. bank levy or cash levy)
- Tax liens covering all assets and receivables
- Seize and sell the assets
- Income from the sale of the items to be distributed to the payment of all unpaid amount due.

## General Anti Avoidance Rule (GAAR)

The Mongolian Tax Authority (MTA) has the right to exercise the GAAR when the following circumstances have been identified during the tax audit:

- Taxpayer solely or jointly organized the tax scheme;
- Taxpayer benefited from tax avoidance under the tax scheme

The MTA will reassess and impose additional tax liability if the taxpayer had benefited from tax avoidance scheme.

### **Tax Understatement Penalty**

Taxpayers who have failed to pay taxes, understated taxes, impose taxes or understated taxable income to conceal taxable items, shall now face the following penalties:

- Taxes payable
- Penalty shall be 30 percent of taxes due, if taxpayer understated the tax by up to 50 percent.
- Penalty shall be 40 percent of taxes due, if taxpayer understated the tax by 50 percent or more.
- For repeated offences, a penalty increases to 50 percent of tax liability.

### **Withholding Tax Penalty**

Where withholding tax is not withheld or not remitted and reported, the taxpayer who is obliged to withhold the tax shall be penalized.

- The penalty shall be 40 percent of the tax liability.
- For repeated offences, a penalty of 50 percent of tax liability shall be imposed.

### **VAT penalty**

Where VAT law was breached by actions or non-actions which result in reduced or non-tax payments, the tax inspector shall charge the taxes and impose a penalty of 40 percent accordingly.

For repeated offences, a penalty of 50 percent of the tax liability shall be imposed.

## **6.2 Corporate Income Tax Law**

### **Income sourced from Mongolia**

The definition of 'Income sourced from Mongolia' has been expanded to include the following income earned by non-resident taxpayers (but not limited to):

- Income earned from arts, culture, sports and other activities organized in Mongolia
- Dividend income from resident taxpayers
- Interest income from resident taxpayers
- Income from sale or transfer or rental of the rights and other assets that owned by non-resident taxpayer
- Royalty income, rental or possession or use of right income from movable, immovable and intangible assets, interest on financial leasing, technical, management and consulting service fees from resident taxpayer

### **Entity headquartered in Mongolia**

The criteria to determine "entity that headquartered in Mongolia" has been more clarified and expanded in the new CIT law. If at least three out of the five conditions are met, the entity shall be considered as headquartered in Mongolia.

### **Permanent establishment (PE)**

The permanent establishment shall be constituted, if:

- Construction work continued for longer than 90 days within consecutive twelve month period.
- Technical, consulting, management and supervising service continued for longer than 183 days within consecutive twelve month period.

### **The limitation of deductible expenses**

- Ceremony or event expense not more than 5 percent of total salary expense shall be deductible from gross taxable income.

- Interest expense incurred on related party transactions shall not be allowed as a deduction if it exceeds 30 percent of earnings before interest, tax and depreciation.

### Non-deductible expense

The following expenses shall not be allowed as a deduction:

- Principle amount of the lease paid by lessee (IFRS 16 provides a single lessee accounting model, requiring lessees to recognize assets and liabilities for all leases and depreciate for the period of leasing agreement)
- Loss on sale of fixed assets between related parties
- Increase of the goods revaluation amount

### Depreciation and amortization expenses

- Building, construction and landscaping:
  - Mining companies - 40 years
  - Others - 25 years
- Computer, all the parts, and software - 2 years

In addition, computation of depreciation and amortization expenses will not be allowed for tax deductions if there was an increase in the carrying amount of a taxpayer's assets arising out of revaluation.

### Loss carry forward

Without regard to specific industry (e.g. mining), losses can now be deducted from taxable income for up to four subsequent years following the tax year in which the losses were incurred. The annual amount of losses to be carried forward shall not exceed 50 percent of taxable income in the tax year.

### Tax rate

Figure 11: Taxpayer that resides in Mongolia on a permanent basis – tax rates for common income sources

Corporate income tax		
	Taxable income	Tax rate
1	Up to MNT 6 billion	10 percent
2	Excess over MNT 6 billion	25 percent

- Taxable income from sale and transfer of the rights (including mining minerals, oil, radioactive minerals license and land rights) shall be determined by deducting the related expenses from the value of the rights and its applicable tax rate shall be 10 percent.
- Interest income of the taxpayer who bought Mongolian listed company's (except mining companies) debt instrument, stock or unit rights traded on domestic and international primary and secondary markets shall be taxed at 5 percent.
- Applicable tax rate for interest income on the loan and debt instrument issued to Mongolian commercial banks is also 5 percent.
- If taxpayer's annual taxable income is MNT 300 million or less, applicable tax rate shall be 1 percent subject to certain conditions.

### Tax credit

- Where an entity runs business activities and creates new jobs in provinces outstated more than 500 km away from Ulaanbaatar, 50 percent tax credit will be granted on the income related to the business. If the business is located in an outpost more than 1000 km from Ulaanbaatar, 90 percent tax credit shall be granted.

- If taxpayer's annual taxable income is under MNT 1.5 billion, it can claim a tax credit equal to 90 percent of the taxes.

## Foreign tax credit

Foreign tax paid by a Mongolian resident taxpayer can reduce the taxpayer's tax liability on the same income in the current tax year.

## Tax reporting

Figure 12: Tax reporting

Corporate income tax		
Taxable income of previous tax year		Frequency of submission
1	MNT 6 billion and more	Every quarter
2	Up to MNT 6 billion	Bi annually

In addition, taxpayers holding exploration and mining licenses are required to submit a tax report in each license.

## Simplified regime

If annual sales income is under MNT 50 million, applicable tax rate shall be 1 percent on the gross income and tax return can be lodged once a year within 10th of February in the following year.

## CbCR-country by country reporting

Ultimate parent entity of a multinational group that is a resident for tax purposes in Mongolia and also an entity other than the parent entity where certain scenarios are met would be required to submit the Country-by-Country report to the MTA within 12 months from the last day of the fiscal year of the multinational group.

The fiscal year of the multinational group means the fiscal year of the Ultimate parent entity of the multinational group.

## Tax implications on sale and transfer of right by way of transfer of shares or participation rights held by the beneficial owner

When determining taxable income from sale and transfer of mining minerals, oil, radioactive minerals special license and land usage and possession rights by way of full or partial transfer of shares or participation rights held by the beneficial owner, documented expenses incurred to obtain such rights shall be deducted from value of the rights. The tax rate will be 10 percent.

Changes in the shares or participation rights, voting right structure within the legal entities in holding chain from the right holder to the ultimate beneficial owner, through transfer of shares, merger, acquisition, separation, new establishment shall NOT be considered as sale or transfer of the rights, when the beneficial owner's total amount or ratio of shareholding, participation and voting rights in the right holder is not changed.

## CFC rule - Controlled Foreign Company

A non-resident entity of Mongolia is considered to be a 'Controlled Foreign Company' (CFC) if Mongolian resident entity or permanent resident individual owns more than 50 percent of the shares or voting rights in that entity through direct or indirect ownership.

- CFC shall be treated as a resident taxpayer in Mongolia.
- Income generated by a CFC entity who operates in offshore regions shall be subject to tax in Mongolia.
- Where CFC is an ultimate beneficial owner and taxes paid by the right holder in Mongolia as a result of indirect transfer of the rights, such taxes maybe claimed in a foreign country.
- Foreign tax paid by CFC resided in offshore regions can be deducted from the taxes payable.

## 6.3 Personal Income Tax Law

We would like to highlight the following major revisions announced in the new PIT law.

### Residency

An individual shall be a tax resident if:

- Person has resided in Mongolia for 183 or more days in consecutive 12 months period (Please note under the current rule, residency status is determined by considering an individual's days of physical presence in Mongolia within the tax year).
- If 50 percent of the taxable income includes Mongolian sourced income

Furthermore, the individuals who come to Mongolia with an intention of living and working in Mongolia for 183 days or more in consecutive 12 months can be registered as tax residents of Mongolia from the date of arrival.

### Tax rate

PIT rate for resident remains flat 10 percent on their worldwide income as opposed to non-resident shall pay 20 percent tax on their Mongolian-sourced income under the new law.

For entrepreneurs and freelancers, if their annual taxable income is under MNT 50 million which is assessed on their previous year tax return, 1 percent tax rate may apply.

In addition, interest and dividend income of the taxpayer who bought Mongolian listed company's debt instrument, stock or unit rights traded on domestic and international primary and secondary markets will be taxed at 5 percent.

### Tax credit / allowance

Following tax credit and allowance will be made available to only Mongolian citizen taxpayers:

- Where an individual built or purchased the first apartment for residential purpose with his/her income or a loan, tax credit up to MNT 6 million can be claimed.
- Tuition fee allowance can be claimed against taxable income where individual taxpayer paid tuition fee of his/her birth or adopted child who attends a bachelor degree program for the first time at domestic or foreign college and university.
- Where an individual who registered at provinces outstated more than 500 km away from Ulaanbaatar operates business activities, 50 percent tax credit can be claimed. If the business is located in outpost more than 1000 km, then 90 percent tax credit shall be applicable.
- Without regard to double tax treaty, foreign tax paid by Mongolian resident taxpayer can reduce the current year tax liability on the same income as a foreign tax credit. If the foreign tax paid is less than Mongolian tax payable, then the difference shall be due.

### Tax reporting

In terms of tax reporting, the following provision has been added to the law:

- Individuals who are engaged in employment activities with Mongolian resident entity and paid from a non-resident entity of Mongolia shall be responsible for paying taxes on Mongolian sourced income on the monthly basis and submit annual tax return before 15th of February in the following year.

### Business traveler

The law also introduces the personal income tax obligation for business travelers where they are assigned on the project in Mongolia under the service agreement between resident and non-resident entities. However there is no threshold/minimum number of days stated in the law that exempts the individual from the requirements to pay tax in Mongolia. To the extent that the individual qualifies for relief in terms of the dependent personal services article of the applicable double tax treaty, there may be no tax liability



## 6.4 Value Added Tax Law

The revisions to the VAT law includes:

- VAT incurred on the purchase or importing of fixed asset will be allowed to be credited against VAT due for a specified period:

Figure 13: Timeframe to credit input VAT fixed asset

Value added tax		
Fixed assets		Period to recover the input VAT
1	Buildings and constructions	10 years
2	Equipment / exploration activity expenses	5 years
3	Other fixed assets	Within the reporting period

- The amendment to the law also clarifies that the interest on the loan provided by business entities other than banks and financial institutions shall also be exempt from VAT.

# IMMIGRATION AND EMPLOYMENT



# 7 IMMIGRATION AND EMPLOYMENT

## 7.1 Immigration

Immigration is a key issue for any business operating in Mongolia that will be employing expatriates, as well as individuals coming to Mongolia to invest. The Law of Mongolia on the Legal Status of Foreign Nationals (the Foreign Nationals Law) is the basis of the regulation relating to the entry and naturalization of foreign nationals.

### Visas

Generally, foreigners are required to have a Mongolian visa to enter the country.

Foreigners visiting Mongolia for more than 30 days are required to register with their local Office of Immigration, Naturalization and Foreigners Registration (Immigration Office) within seven days of arrival. Failure to register may result in fines or penalties. If a foreigner is invited to visit Mongolia, the citizen, business entity or organization inviting the foreigner is responsible for registering them with the Immigration Office.

### Residence permits

Foreigners who wish to reside in Mongolia may apply for a residence permit. Residence permits are valid for up to one year and can be extended for an additional years. Residence permits are granted for the following purposes:

- Work
- Family reasons
- Immigration
- Investment
- Study, internship, scientific research and other private matters

Applications for residence permit, for the purpose of work are required to be requested by the foreigner's employer.

In addition, the number of foreigners residing in Mongolia is limited by the Foreign Nationals Law to 3% of the total population, and the number of foreign nationals from each country to 1% of the total population.

### Work permits

A business entity, organization or citizen can employ workers and specialists from abroad for occupations and professions requiring high professional skills. Prior to employing workers and specialists from abroad, a work permit is required to be obtained by the employer from the Labour and Social Implementation Agency (Labour and Social Agency). Requests for work permits must be made in writing and include the following documents, among others:

- Business case for hiring a foreign national
- Employment contract between the two parties
- Diploma, certification and passport of the foreigner

Work permits are granted for up to one year and can be extended based on a written request from the employer. In considering an extension, the Labour and Social Agency takes into account the business case for continued employment and the results of work performed thus far.

### Fees and quotas for employing foreign workers

An organization employing workers and specialists from abroad is required to pay a fee for employing a foreigner. Unless otherwise noted in trade agreements with specific countries, the fee must be paid on a monthly basis and is currently set to MNT 480,000.<sup>22</sup> The fee is linked to a minimum

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<sup>22</sup> [Legal Information Mongolia](#)

compensation amount that is periodically updated and approved by the Government. The revenue generated from this fee is used to fund government programs designed to combat unemployment in Mongolia.

Quotas have been established for the number of foreign workers that can be hired in a given year. Depending on the economic sector and the size of the organization hiring the foreigner, foreigners can comprise as much as 70% or as little as 5% of the total workforce of an organization. Generally, organizations operating in the mining and construction industries can hire a higher percentage of foreign employees. Quotas are updated and approved on an annual basis by the Government.

A limited number of cheaper 'investor' visas are also permitted to each employer.

## 7.2 Employment regulations

Labour relations in Mongolia are regulated by the provisions established in the Labour Law of Mongolia (the Labour Law). The Labour Law provides general rules related to labour contracts, working conditions, labour disputes and other matters related to labour relations. The general provisions articulated in the Labour Law apply to all foreign and domestic parties entering into labour contracts within the territory of Mongolia, unless otherwise noted in subsequent articles and/or trade agreements with specific jurisdictions.

### Labour contracts

The Labour Law provides that all employment contracts must be in writing and must contain the following information:

- Name or title of the position of employment
- Duties and work to be performed
- Amount of compensation
- Work conditions (e.g. any conditions that may impact an employee's safety or ability to perform work)

If the basic requirements listed above are not agreed upon during the course of a negotiation, the employment contract can be considered void. Additional terms and conditions may be agreed upon by the parties to be included in the contract, provided that the additional terms and conditions are compliant with existing laws and regulations of Mongolia.

Employment contracts can be for a fixed-term or permanent. For fixed-term employment contracts, the Labour Law establishes conditions where the employment contract may be lawfully terminated, prior to the end date of the contract. These conditions include situations where both parties agree to terminate an employment contract prior to the end date of the contract or if an employee is required to undertake active military service.

### Severance pay

If an employment contract is lawfully terminated (in accordance with the Labour Law) or if an employee is required to partake in active military service, the employee is eligible for a severance payment.

The minimum severance payment is equivalent to the average salary currently received by the employee, unless otherwise stipulated in an employment contract. A default method for determining the average salary of an employee is established by the Minister of Social Welfare and Labor.

### Working hours

The standard work week in Mongolia consists of a 40 hour week, typically treated as eight hours per day from Monday to Friday with Saturdays and Sundays treated as public days of rest. In addition, the Labour Law defines a work day as eight hours of work and requires at least 12 hours of uninterrupted rest between two work days. If an employee works beyond the standard eight hour day at the initiative of their employer, the additional work performed by the employee is considered overtime and should be compensated by either time in lieu or overtime pay.

The employer is further restricted in the circumstances in which they can impose overtime on public holidays and weekends.

## Salary

Employees are typically paid twice a month or more frequently if stipulated by the employment contract. Compensation consists of base compensation, extra pay, awards and bonuses. The minimum compensation level is established by law and is currently set at MNT 320,000 per month, valid from the 1<sup>st</sup> of January 2019.

Employers are required to provide extra pay in certain circumstances, including:

- Overtime, which must be at a rate at least 50% greater than regular pay
- Work performed over a public holiday, which must be double the amount of regular pay
- Night shift work, which must be at a rate established in the employment contract

## Paid vacation

Annual paid vacation for employees in Mongolia is mandatory. First time employees usually become entitled to an annual vacation after 11 months of service, with vacation periods ranging from 15 days to 33 days, depending on the number of years served and the type of work performed. Annual paid vacation can be exchanged for payment if employees are unable to take their annual vacation.

## Maternity leave

Under the Labour Law, new mothers are entitled to 120 days of maternity leave, during which state benefits are paid. State benefits are capped at ten times national minimum wage. This is typically taken for two months on either side of the expected delivery date. Additional days can be taken if there were any complications during delivery. In addition to taking days off, mothers with an infant of up to twelve months old are entitled to extra one or two hours of rest during a work day.

## 7.3 Social security

The Mongolian Social Security System (Social Security) provides pension, health, disability and unemployment, amongst others. Participation in Social Security is mandatory for all Mongolian nationals, foreigners and stateless persons who are employed within the territory of Mongolia.

### Rates

Both employers and employees are required to pay social security contributions, at rates which are established by the Social Insurance Law of Mongolia. In 2018 Employer contribution rates vary from 12.5% to 14.5%, depending on the industry.

Employee contribution rates are 11.5% (from salary and similar income). However, employee monthly contributions are capped at the minimum wage (currently MNT 368,000 effective from 1 January 2019). The contribution rate shall increase as follows during 2019 and 2020.

Contribution	2019 rate	2020 rate
Employee	11.5% /capped/	12.5% /capped/
Employer	12.5-14.5%	13.5-15.5%

Employers are responsible for withholding social security contributions and transferring them to relevant authorities on a monthly basis.

### Social security benefits

Workers who have contributed to Social Security are eligible for social security benefits. Pension benefits are paid to a worker or the worker's family upon their retirement, disability or death. Similarly, aid benefits are paid to a worker or the worker's family upon disability, pregnancy or death. The amount of benefit paid to a beneficiary can depend on a variety of factors, including the salary of a worker and the number of years he or she contributed to Social Security. Health benefits are paid in

case of a worker's illness. To access healthcare at a state hospital, employees need to provide evidence of their contributions.

# APPENDIX 1: DOUBLE TAX AGREEMENTS

The following countries have concluded agreements with the Government of Mongolia on the Convention for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income and on Capital.<sup>21</sup>

## **Currently in force:**

- Austria
- Belarus
- Belgium
- Bulgaria
- Canada
- Czech Republic
- Democratic People's Republic of Korea
- France
- Germany
- Hungary
- India
- Indonesia
- Kazakhstan
- Kyrgyzstan
- Malaysia
- People's Republic of China
- Poland
- Republic of Korea
- Russia
- Singapore
- Switzerland
- Turkey
- Ukraine
- United Kingdom
- Vietnam

## **Signed but not yet in force at the time of writing:**

- Italy
- Thailand
- Egypt
- Latvia
- Romania
- Uzbekistan

The Mongolian Government has been reconsidering its position with respect to a number of DTAs. Accordingly, anyone looking to place any reliance on the provisions of a DTA in assessing any investment decision would be advised to ensure that they seek the most up to date advice.

# APPENDIX 2: GLOSSARY

<b>AFCCP</b>	Authority for Fair Competition and Consumer Protection
<b>Anti-corruption Law</b>	The Anti-corruption Law of Mongolia
<b>Company Law</b>	Mongolian Company Law
<b>Competition Law</b>	The Competition Law of Mongolia
<b>DTA</b>	Double Tax Agreement
<b>FDI</b>	Foreign Direct Investment
<b>GBP</b>	British Pound
<b>GDP</b>	Gross Domestic Product
<b>IFRS</b>	International Finance Reporting Standards
<b>IMA</b>	Invest Mongolia Agency
<b>Immigration Office</b>	The Office of Immigration, Naturalization and Foreigners Registration
<b>IP</b>	Intellectual Property
<b>IPO</b>	Initial Public Offering
<b>IPOM</b>	Intellectual Property Office of Mongolia
<b>IPRSO</b>	The Intellectual Property and State Registration Office
<b>Labour and Social Agency</b>	The Labour and Social Implementation Agency
<b>LSEG</b>	London Stock Exchange Group
<b>MNT</b>	Mongolian Tugrik
<b>MTA</b>	Mongolian Tax Authority
<b>MPP</b>	Mongolian People's Party
<b>MPR</b>	Mongolian People's Republic
<b>MPPRP</b>	Mongolian People's Revolutionary Party
<b>MSE</b>	Mongolian Stock Exchange
<b>NSO</b>	National Statistical Office
<b>SMEs</b>	Small and Medium Enterprises
<b>Social Security</b>	The Mongolian Social Security System
<b>Stamp Duty</b>	Stamp Duty Law of Mongolia
<b>The Foreign Nationals Law</b>	The Law of Mongolia on the Legal Status of Foreign Nationals
<b>The Labour Law</b>	The Labour Law of Mongolia
<b>The Personal Tax Law</b>	The Personal Income Tax Law of Mongolia
<b>The Tax Law</b>	The General Tax Law
<b>Trade Names and Trademarks Law</b>	Law of Mongolia on Trade Names and Trademarks
<b>USD</b>	United States Dollar
<b>VAT</b>	Value Added Tax



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