



New Value Added Tax Law of Mongolia

On 9 July 2015, the updated Value Added Tax Law (hereafter “VAT”) was approved by Parliament, effective from 1 January 2016. A summary of the key changes is listed below. There is an element of uncertainty in the case of some provisions, and we hope that following its introduction, rulings and guidance from the MTA will help to remove this:

Registration

- VAT payers are defined as “VAT withholding agents” under the new legislation. 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 redefined as the end user i.e. the person/entity who ultimately bears the VAT cost.
- The VAT registration threshold is to be increased to 50.0 million MNT (from 10.0 million MNT). Revenue from sales of fixed asset shall not be counted when determining whether the threshold has been breached. This will help to reduce the compliance obligations for some smaller organizations. Registration is required within 10 working days of exceeding the threshold (previously 3 working days).
- A person or legal entity may register for VAT on a voluntary basis where sales revenue from primary production, work or provision of services exceeds 10.0 Million MNT.
- Under the existing legislation, voluntary registration was available for VAT payers investing in excess of USD 2.0 million. Such voluntary is not permitted from 1st January 2016.
- Group registration was previously permitted where 66 or more percent of the assets or voting rights of two or more legal entities were owned by one or several legal entities. This is not available going forward.

VAT on Explorations

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

Integrated system

Under the new law, 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.

International Freight Transportation

Historically, there was some uncertainty surrounding the VAT position relating to international freight transportation. The new legislation removes this—whilst the international component of such service fees is zero rated, the domestic element should be subject to VAT.

Timing

There have been subtle changes to the provisions which dictate the time at which VAT should be imposed. From 1 January 2016, it is the earlier of:

- The day when the seller receives the payment for sale of goods, work, or services;
- The day when the seller sells goods, work, or services and issues invoice the time each when the scheduled payment is made for financial instruments;
- The day of purchase of goods, work, or services.

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.

Imposition of VAT

The following additional activities shall be considered as provision of services under the revised law, and therefore subject to VAT:

- Notary services;
- Intermediary services;
- Appraisal services;
- Government grants, financing and premiums;
- Provide financing through purchase of financial instruments (e.g. factoring and forfeiting);
- Advocacy, legal consulting services;
- Hairdressing, salon services, maintenance, laundry and other services except VAT exempt services.

Next steps...

Should you have any questions regarding the finer details of the law, or wish to understand how the law may impact you or your business, please reach out to your KPMG contact.

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