



MONGOLIA

The Transfer Pricing Documentation

Reporting in Mongolia

February 2020



Mongolia Implementation of Transfer Pricing Reporting

Multinationals enterprises (“MNEs”) and corporate groups are facing changes that are requiring them to be much more transparent about their allocation of global profits among affiliated entities and transfer pricing (“TP”) policies adopted. TP documentations are now becoming part of the annual tax compliance cycle.

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.

Mongolia has joined the Inclusive Framework on Base Erosion and Profit Shifting (“BEPS”) in 2018 and as a member of the Framework, Mongolia has committed to the implementation of the four minimum BEPS standards, including transfer pricing reporting under Action 13 (Country-by-country (“CbC”) reporting, Master file, and Local File). Considerable development is now introduced with regard to Transfer pricing reporting and the rules shall apply as of 1 January 2020.

Reporting requirements include:

Transfer Pricing Reporting

Annual Transactional File (ATF)

- **Gathers information about related parties**
- **Information on all types of transactions conducted among the related parties**

Master File (MF)

- **Overview of a MNE’s global operations**
- **Value drivers and supply chain model etc.**
- **General TP policy**







Local File (LF)

- **Local information about the taxpayer**
- **Economic and functional analysis of intercompany transactions**
- **Analysis of group TP policy**

Country by Country Report (CbCR)

- **Gathers information about global allocation of profit, tax of the MNE throughout the world**
- **Summary data and economic activity in each country including revenues, profits, taxes, number of employees, nature of business operation**




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Description	Annual Transactional File	Master File	Local File	CbC Reporting
 <p>Who?</p>	<ul style="list-style-type: none"> All taxpayers who conducted related parties' transactions 	<ul style="list-style-type: none"> Annual sales income higher than MNT 6 billion Group's annual sales income higher than MNT 6 billion Foreign invested companies 	<ul style="list-style-type: none"> Annual sales income higher than MNT 6 billion Group's annual sales income higher than MNT 6 billion Foreign invested companies 	<ul style="list-style-type: none"> Ultimate parent entity, constituent entities Surrogate Parent Entities - assigned persons for reporting (with consolidated financial statements with annual sales income higher than MNT 1.7 trillion)
 <p>Since when?</p>	Starting from financial year beginning 01 January 2020			
 <p>By when?</p>	Annually by 10 February of the following year	Annually by 10 February of the following year	Annually by 10 February of the following year	Within 12 months from the end of fiscal year of the ultimate parent entity
 <p>Where?</p>	Filing at the Mongolian Tax Authority			
 <p>Penalties?</p>	Tax arrears and Penalty - 2% of the total related party transactions	Tax arrears and Penalty - 3% of the total related party transactions	Tax arrears and Penalty - 3% of the total related party transactions	Tax arrears and Penalty - 4% of the total related party transactions
 <p>Language?</p>	Mongolian language shall be accepted			

More tax complexity ahead...

Multinationals and corporate groups need to have a transfer pricing documentation strategy to coordinate the content and preparation and make sure that the transfer pricing documentation elements consistently explain the group's business model.

Actions Required:

Risk assess — review current position	Determine your documentation strategy	Prepare ATF, MF, LF and CbC
<ul style="list-style-type: none">• Transfer pricing documentation analytics.• Review transfer pricing model.• Gap analysis against tax laws requirements.• Gather information in the public domain.• Evaluate current documentation process. 	<ul style="list-style-type: none">• Identify stakeholders; assign roles and responsibilities.• Apply risk based approach to focus resources on key areas.• Determine structure of Master File and Local File. 	<ul style="list-style-type: none">• Prepare Annual Transactional Files.• Prepare Master File.<ul style="list-style-type: none">○ Important drivers of business profit.○ Value chain.○ Intangibles.• Prepare Local File.<ul style="list-style-type: none">○ Design Local File preparation process.○ Prepare Local File template.• Review actual CbC Reporting. 

Content of Transfer Pricing Documentations in Mongolia (1/2)

ANNUAL TRANSACTIONAL FILE

Overview of all related parties transactions conducted

The annual transactional file should contain information relating to the followings:

Information about related parties

- > Ultimate parent entity and shareholders
- > Related parties
- > Reorganizational changes among the related parties

Information of all types of transactions conducted among related parties

- > Core documentation and local entity module
- > Sales and purchase
- > Loan and financing
- > Goods sold, services performed and works conducted for free of charge
- > Exchange of goods, services and works
- > Cost allocations
- > Intangibles

MASTER FILE

Overview of the MNE group business. The objective is to explain an MNE's transfer pricing policies in the context of its global economic, legal, financial and tax profile

The Master File should include a high-level overview of the MNE, covering the following topics:

MNE overview including:

- > Constituent Entities
- > Shareholding structure
- > Organizational structure
- > Management structure

A description of the group's businesses including:

- > Important drivers of business profit
- > Description of the supply chain
- > Main business operations
- > Description of the main geographies.
- > Assets used for principal contributions to value creation.
- > Important business restructurings

Intangibles including:

- > The MNE's strategy for the development of intangibles
- > A list of important intangibles
- > Agreements relating to intangibles
- > Important transfers of intangibles

Financing transactions:

- > Description of the financial activities

Financial and tax positions including:

- > Consolidated financial statement
- > Advance Pricing Agreements (APAs); and other tax rulings relating to the allocation of income in other jurisdictions

Content of Transfer Pricing Documentations in Mongolia (2/2)

LOCAL FILE

The content of the Local File helps to demonstrate that the taxpayer has complied with the arm's length principle in its material intra-group transactions

The Local File should contain:

Description of the business, direct and indirect shareholders, management and organizational structure, key personnel information, business strategy, key competitors

For each category of controlled transactions:

- > Entity level details (business model, strategies, value drivers, etc.)
- > Description of controlled transactions and context of transaction
- > Detailed comparability analysis
- > Determination of appropriate transfer pricing method and tested party
- > List and description of Comparable Uncontrolled Prices ("CUPS") if any, search methodology and financial indicators of comparability
- > Comparability adjustments
- > Arm's-length range
- > A summary of the financial information used in applying the transfer pricing methods
- > A summary for concluding transaction was conducted on arm's length basis

Financial information, including financial statements, audited financial statements, a copy of existing APAs and other tax rulings which are related to the controlled transactions in other jurisdictions and copies of material intra group agreements

CbC REPORTING

While the primary purpose of the CbCR is to provide information to a tax authority to enable it to undertake a transfer pricing risk assessment, it is acknowledged that the data will be used to assess wider BEPS related risks

CbC reporting should contain:

The country-by-country report requires aggregate tax jurisdiction wide information relating to the global allocation of

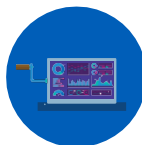
- > The income
- > The taxes paid
- > Certain indicators of the location of economic activity among tax jurisdictions in which the MNE group operates
- > Listing of all the Constituent Entities for which financial information is reported, including the tax jurisdiction of incorporation, where different from the tax jurisdiction of residence, as well as the nature of the main business activities carried out by that Constituent Entity

More KPMG insights on BEPS visit kpmg.com/BEPS

This site offers a comprehensive collection of resources, webcasts, explanations and news related to BEPS and its impact on multinational organizations worldwide.

KPMG offers the complete spectrum of support for transfer pricing documentation from data gathering to filing to the competent authorities

Transfer Pricing Services offered by KPMG:



Compliance and documentation

- Analyzing and documenting transactions between related parties
- Annual transactional reporting compliance services
- Master file and local file reporting compliance services
- Country by Country reporting compliance services



Planning

- Advice on the development of fiscally efficient transfer pricing policies
- Assist companies assess the impact of their transfer pricing policies on their overall tax position



Tax authority audits/Disputes within the tax authorities

- Assist in negotiating and agreeing transfer pricing disputes where the dispute is within the tax authority

Contact us:

KPMG has an experienced team of tax professionals who can provide clients with tax transparency and transfer pricing documentation related services. For more information about these services or assistance with assessing your company's readiness in meeting transfer pricing documentation requirements under the Mongolian Tax Reform 2020, please contact us:

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