

GMS Flash Alert

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Mongolia – Agreement with IMF Could Mean Higher Personal Taxes, Health Contributions

A recently-brokered agreement between Mongolia's government and the International Monetary Fund (IMF) features several tax measures, including changes to employer and employee Social Health Insurance contributions and personal income tax rates.¹

WHY THIS MATTERS

Once they are legislated, changes announced as a part of this agreement could impact the amount of tax paid by individuals as well as by their employers. There is a policy orientation favoring an enhancement of fiscal receipts to stabilize the government's budgetary situation and this is translating into higher personal taxes and Social Health Insurance (SHI) contributions, which will increase the tax burdens on individuals and employers.

International assignment cost projections and budgeting for assignments to Mongolia and for assignees outside Mongolia still subject to Mongolian taxation should take into account the changes announced to the extent they become legislated. With the higher personal tax rates and adjusted income thresholds, as well as the increase in the SHI contributions, employers will need to make the necessary payroll adjustments and update hypothetical tax calculations for tax-equalized assignees.

Background

Late last month, the Mongolian government and the International Monetary Fund (IMF) reached an agreement in relation to a three-year, USD 440 million funding facility. The agreement still needs to be approved by the IMF Executive Board, which is expected to occur during March.

As expected, there are a number of conditions attached to the agreement, including tax changes. It has been announced that the following taxes will undergo modifications:

- SHI contributions (employer and employee) to increase.
- Personal Income Tax rates to increase.
- Excise taxes on fuel, tobacco, and alcohol to increase.
- Personal Income Tax to be applied to interest income on savings accounts for Mongolian citizens from 1 April 2017 (further details on this are anticipated).

Personal Income Tax

The IMF has demanded that the Mongolian government introduce increased Personal Income Tax rates. The IMF has proposed a progressive income tax rate system from 10 percent to 20 percent depending on salary level. At this stage, no further details have been provided in relation to the expected start date or income tax brackets.

Social Health Insurance Contributions

It has also been announced that the employee and employer SHI contributions will be increased by 5 percent over the next three years, commencing 2018. These changes could significantly increase the cost of employing individuals in Mongolia.

Employee Contributions

Employee contributions are based on a percentage of the employee's monthly salary and similar income. Employee contributions are currently capped at the lower of:

- 10 percent of the employee's salary and other similar income; or
- the monthly minimum wage (currently MNT 240,000).

The announced changes would increase the rate as detailed below. It is unclear at this stage whether the employee contribution will continue to be capped.

Current	From 1 January 2018	From 1 January 2019	From 1 January 2020
10% (capped)	12%	13%	15%

Employer Contributions

Employer contribution rates currently vary from 11 percent to 13 percent depending on the industry. There is no capping of the employer contribution.

Current	From 1 January 2018	From 1 January 2019	From 1 January 2020
11 – 13% (not capped)	2% increase: 13 % - 15% (not capped)	1% increase: 14% -16% (not capped)	2% increase: 16% - 18% (not capped)

KPMG NOTE

The KPMG International member firm in Mongolia is awaiting further details in the form of policy measures proposed or draft legislation. We will endeavor to keep readers informed as developments occur.

FOOTNOTE:

1 See "[Tax Rates on Vehicle, Alcohol Products, and Tobacco to Increase](#)" for additional information on this development (please note this is a 3rd party, non-governmental website).

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Contact us

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