



Thinking Beyond Borders: Management of Extended Business Travelers - Mongolia



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Key message

1 Key message

A person's liability to Mongolian individual income tax is determined by residence status for taxation purposes and the source of income derived by the individual.

A new progressive rate of personal income tax came into force for resident taxpayers at the start of the financial year 2023 that applies to employment income including fringe benefit. Prior to this new progressive tax rate, employment income has been taxed at a flat 10% rate. Income tax is currently levied at a flat tax rate of 20 percent on Mongolian-sourced income for non-resident taxpayers.

The tax year is the calendar year.

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Income tax

2 Income Tax

2.1 Liability for income tax

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

- an individual who resides in Mongolia for 183 or more days in a consecutive 12-month period
- an individual who earns 50 percent or more of their income in Mongolia or sourced from Mongolia
- a person who is a civil servant of Mongolia appointed to work overseas.

In the first year of arrival, an individual can have a split residency status. This means that for first 183 days spent in Mongolia, they are considered as a non-resident for tax purposes. Once their stay in Mongolia exceeds 183 days, they become a resident from the 184th day and onwards. Furthermore, an individual who comes to Mongolia with an intention of living and working in Mongolia for 183 days or more in 12 consecutive months, can be registered as a tax resident of Mongolia from the date of arrival.

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-residents are subject to tax on certain categories of income from Mongolian sources under the concept of limited tax liability. If the income from employment is subject to personal income tax withholding, the tax obligations are fulfilled with the withholdings and no Mongolian tax return needs to be filed.

2.2 Tax trigger points

An individual will be considered a tax-resident in Mongolia if they reside in Mongolia for 183 or more days in a consecutive 12-month period. The 183-day period shall be calculated based on the number of days from the day of entry into Mongolia and in case of multiple entries, it shall be determined based on the total number of days a taxpayer stays in Mongolia.

2.3 Types of taxable income

Generally, the following remunerations and benefits are considered as employment income:

- base salary, additional wages, overtime pay, bonuses, assignment allowances and incentives, vacation pay, pension, allowances, and other similar income a taxpayer earns in accordance with an employment contract entered with an employer
- allowances provided by an employer to an employee or employee's family member and other similar income
- gifts provided by an employer to an employee or employee's family member
- salaries, wages, bonuses, and incentives of members of a board of directors, control committee, part-time committee, other committees, and task force and other similar income
- all types of bonuses and incentives issued by foreign and domestic business entities, citizens, and other entities
- wages, bonuses, additional wages, allowances, and other similar income from employment based on contracts entered into with legal entities or individuals other than the taxpayer's primary employment.

Other taxable income includes:

- income from production and trade activities and professional services
- income from property (e.g. rental income, dividends, interest)
- income from sale of property.

A tax credit is deductible from Mongolian personal income tax of residents who receive employment income. The amount of the tax credit depends on the individual's level of income. No tax credit is available where the individual's annual income exceeds 36 million Mongolian tögrög (MNT). In addition, certain income is tax exempt under the Personal Income Tax Law, including

- certain employee pensions, benefits, payments, discounts and reimbursements
- Income earned by disabled persons
- payments, interest and penalties for Government notes payable (i.e. Government bonds).

2.4 Tax rates

For resident taxpayers, employment income is taxed at below progressive tax rate as opposed to personal investment income (unless noted below) is currently subject to a flat 10 percent tax rate.

Employment income		Taxable bases	
Salary income		Deduct statutory social health insurance	
Indirect income (i.e., benefit, allowance)		Gross amount	
Annual taxable income bracket (in MNT)			Tax rate
0 – 120,000,000	12,000,000		10%
120,000,001 – 180,000,000	12,000,000 + 15% of the excess over 120,000,000		15%
Over 180,000,000	21,000,000 + 20% of the excess over 180,000,000		20%

The following income is subject to specific personal income tax on a gross basis and is subject to final withholding tax:

- income from the sale of immovable property is taxed at 2 percent;
- income from gambling, quiz and lottery is taxed at 40 percent
- income from artistic performances and sport competitions is taxed at 5 percent

For non-resident taxpayers, Mongolian sourced income is currently subject to a flat 20 percent tax rate.

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Social Security

3 Social Security

3.1 Liability for social security

The Mongolian Social Security System provides benefits such as 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.

Both employers and employees are required to pay social security contributions, at rates which are established by the Social Insurance Law of Mongolia. Employer contribution rates currently vary from 12.5 to 14.5 percent, depending on the industry. Employee contribution rates are currently 11.5 percent (from salary and similar income). However, employee monthly contributions are currently capped at MNT632,500 per month

3.2 Employment insurance

See above.

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Compliance obligations

4 Compliance obligations

4.1 Employee compliance obligations

Personal income tax returns for the preceding calendar year must be filed with the local tax office by 15 February. A further filing extension is not available. The tax payment is due at the same day.

The penalty for late payment is currently 0.1 percent of the outstanding balance per day. The penalty for concealing taxable income through negligence or fraud (where criminal charges are not brought) is 30-50 percent of the tax payable.

4.2 Employer reporting and withholding requirements

Personal income tax payments for employees are withheld, filed and remitted to Mongolian Tax Authority by employer and by due dates. Quarterly personal income tax filing by employer is due by the 20th of the first month of the following quarter, and annual filing by employer is due by the 15th of February of the following year. However personal income tax should be paid on a monthly basis.

Employers are also responsible for withholding social security contributions and transferring them to relevant authorities. Social insurance return should be filed by the 5th of the following month and payment should be remitted within the month.

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Immigration

5 Immigration

5.1 Work permit/visa requirements

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

Foreigners visiting Mongolia for more than 30 days are required to register with their local Office of Immigration, Naturalization and Foreigners Registration (Immigration Office) electronically within 48 hours 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.

A business entity, organization or citizen can employ workers and specialists from abroad for occupations and professions requiring high professional skills. Work permits are granted for up to 1 year and can be extended based on a written request from the employer. Resident permits are usually valid in line with the work permit valid period.

A foreign worker quota is established for the number of foreign workers that can be hired and apply for a work permit depending on economic sectors. This quota is renewed and approved by the Government at the end of each year on an annual basis. The foreign worker quota for 2023 is approved as follows:

Economic sectors	Number of foreign workers	Percentage of total foreign workforce
Agriculture	108	0.5%
Mining and quarrying	8,000	39.3%
Manufacturing	984	4.8%
Electricity, gas, steam and air conditioning supply	1,511	7.4%
Water supply, waste management	100	0.5%
Construction	3,644	17.9%
Wholesale and retail trade	2,118	10.4%
Transportation and warehousing	1,642	8.1%
Hospitality and food service	146	0.7%
Information and communication	2	0.0%
Financial and insurance	41	0.2%
Real estate	3	0.0%
Professional, scientific and technical activities	8	0.0%
Administrative and support service activities	248	1.2%
Public administration and defence	73	0.4%
Education services	980	4.8%
Health and social welfare	154	0.8%
Arts, entertainment and recreation	15	0.1%
Other service activities	178	0.9%
Household service activities	300	1.5%
Activities of international organizations and bodies	96	0.5%
TOTAL	20,351	100%

Generally, organizations operating in the mining and construction industries can hire a higher percentage of foreign employees.

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Other issues

6 Other issues

6.1 Double taxation treaties

Mongolia has approved tax treaties with several countries/jurisdictions.

For the avoidance of double taxation, Mongolia proposes to use the credit method. The amount of foreign tax paid is allowed as a credit against the Mongolian tax payable on the same income or capital. However the amount of such tax credit shall not exceed the amount of tax payable on the same amount of income in Mongolia.

6.2 Permanent establishment implications

PE is defined in both domestic tax legislations of Mongolia and DTTs. Following provisions are described in the CIT law of Mongolia to determine whether the PE arises in Mongolia. In accordance with Provision 6 of the CIT law, business activities conducted by non-residents through a fixed place of business, through which the business of an enterprise is wholly or partly carried on, shall trigger a PE.

Fixed place PE

Fixed place of business is defined as follows:

- A place of management;
- Branch (unit and section);
- Establishment conducting trainings and workshops, organizing fairs and exhibitions;
- Plant;
- Warehouse, trade and service provider;
- Oil and natural gas well or a mine that extracts natural resource;
- Other site, unit or establishment under Article 6.1 of this Law;

Construction or service PE

Furthermore, PE shall be deemed to exist, where:

- A construction site or construction or installation object existing, or construction and supervision operations last for a period of 90 and more days within 12 consecutive months; and
- Technical, advisory, management, supervisory and other services last for a period of 183 and more days within 12 consecutive months provided by non-residents' own employees or other hired individuals to a resident taxpayer.

Agent or warehouse PE

Persons who are involved in following activities on behalf of a non-resident taxpayer shall constitute a PE:

- Sale, distribution or storage of goods; and
- Concludes contract, or plays the principle role leading to the conclusion of contracts that are concluded without material modification by the non-resident

A contract qualifying one of the following terms shall be deemed to be the contract specified above:

- a) Contract is in the name of a non-resident taxpayer; or
- b) Contract is for the transfers of the ownership of, or for the granting of the right to use, property owned by that non-resident or that non-resident has the right to use; or
- c) Contract is for the provision of services by that non-resident.

6.3 Indirect taxes

Under the VAT Law, a VAT payer is defined as a legal entity, an individual or a PE of a foreign entity, who sells goods, services and works subject to VAT.

The threshold to be registered as a VAT withholding agent is MNT50 million; for this purpose, revenue from the sale of fixed assets shall not be counted. An entity that meets the threshold shall submit its application to register as a VAT withholding agent to a relevant tax authority within 10 working days.

A person or legal entity, whose sales revenues from primary production, work and service subject to VAT has reached MNT10 million can be registered voluntarily.

VAT is imposed on goods imported into and exported out of Mongolia and goods produced or sold, work performed, or services provided in Mongolia. Goods and services sold or provided in Mongolia are taxed at a rate of 10 percent. Exported goods, works and services are zero rated for VAT.

Input VAT paid on purchases of goods, services and works provided for the purposes of production and services, and VAT paid for goods, works or services directly imported for the purpose of sale, production and providing services can be credited against Output VAT.

Income earned by non-resident entities is subject to 10 percent WHT VAT in Mongolia. The WHT VAT is not creditable for Mongolian entities which are receiving the services or goods from the non-resident entities.

6.4 Transfer pricing

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”) report, Master file, and Local File). Considerable development is now introduced with regards to Transfer pricing reporting and the rules shall apply as of 1 January 2020.

Following Transfer Pricing documents must be submitted to Mongolian Tax Authority by 10th February:

- Annual Transactional file
- Master File
- Local File
- CbC reporting.

6.5 Local data privacy requirements

N/A.

6.6 Exchange control

All business transactions in Mongolia are legislatively required to be settled in MNT. However, it is not unusual for prices to be quoted in other currencies (predominantly US dollars (USD), particularly in international trade and the tourism industry.

Currency regulation shall apply on transactions between two resident companies. The currency law clearly states that the “price of goods, work and service shall be expressed, and settlement shall be conducted only in national currency within territory of Mongolia, and it is prohibited to set price, carry out settlement and run advertisement in foreign currencies or settlement units without official approval from Bank of Mongolia”.

6.7 Non-deductible costs for assignees

None. General principles stated above apply for assignees too.

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- Personal Income Tax Law of Mongolia <https://www.legalinfo.mn/law/details/14410?lawid=14410>
- General Tax Law of Mongolia <https://www.legalinfo.mn/law/details/14403?lawid=14403>
- Corporate Income Tax Law of Mongolia <https://www.legalinfo.mn/law/details/14407?lawid=14407>
- Value Added Tax Law of Mongolia <https://www.legalinfo.mn/law/details/11227?lawid=11227>.

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