



ADB

Asian Development Bank

VALUE-ADDED TAX (VAT)



2023

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VALUE-ADDED TAX (VAT)

1.1. OBJECTIVES OF THE MANUAL

This tax was introduced in Mongolia in 1998, and since then it has collected 20-35% of the total state budget revenues annually. It has many positive features, such as providing a stable source of budget revenues, documenting the purchase and sale of goods and services, full tax coverage, low negative impact on the economy, having a wide base, the ability to collect at low cost and a structural model that meets the international standards.

Due to the enormous growth of market relations, including e-commerce, cross-border work, and services, as well as a variety of payment terms, the duties and responsibilities of registered VAT payers have increased too.

Although the E-barimt system of electronic documents, etax.mta.mn electronic tax reporting system has simplified the registration of purchases and sales, as well as VAT calculation, this manual has been developed for taxpayers as part of the “Tax Education-2022” program with the support of the Asian Development Bank.



1.2. VAT OF MONGOLIA AND ITS GENERAL DESIGN

- **Name:** Value Added Tax
- **Item subject to VAT:** Sale of goods, works, and services
- **VAT payer:** Buyer and end user,
- **Registered VAT payer:** Person responsible for VAT payment and reporting
- **The threshold for registration as a VAT payer:** is 50 million MNT
Mongolian tugrug- the national currency (voluntarily: 10 million MNT)
- **VAT rates:** 10% and 0%
- **Concept of international taxation:** Destination principle
- **Frequency of returns:** Monthly
- **Time to report and pay VAT to budget:** before the 10th day of the next month
- **VAT calculation method:** invoice/credit method
- **VAT document:** invoices, receipts, VAT invoice
- **VAT payer's number:** 7-digit number
- **VAT introduction date:** 1st July 1998
- **Organization to control VAT payment:** Ministry of Finance, General Authority of Taxation, General Authority of Customs

1.3. LAW ON VAT

1

Value-Added Tax Law
(2015-12-21)

2

List of final mineral products
(Government Resolution: number 502, 21-12-2015)

3

Procedures for deduction and refund of VAT and their accounting records
(Order of the Finance Minister, number 333, 14-12-2015)

4

Procedure for refund of VAT paid on purchases by a registered VAT payer

(Order of the Finance Minister, number 14, 27-01-2020)

5

Procedure for conducting lottery and the issuance of winnings and rewards

(Order of the Finance Minister, number A/185, 09-09-2022)

6

Procedure for registration and deregistration of registered VAT payers

(Order of the Head of General Tax Department, number A/02, 03-01-2020)

7

VAT invoice, instructions for using invoices

(Order of the Head of General Tax Department, number A/02, 03-01-2020)

1.4. TAXABLE ITEM

VAT is charged on sale of the following goods, works and services (GWS):

			
Sales	In the territory of Mongolia	Exported from Mongolia	Imported in Mongolia
Goods	VAT is applicable	VAT is applicable	VAT is applicable
Works	VAT is applicable	VAT is applicable	VAT is applicable
Services	VAT is applicable	VAT is applicable	VAT is applicable

	The Tax Office will control
	Taxable at 0 /zero/ percent
	Reverse charge or VAT will be charged by the buyer
	Customs authorities will impose and collect.

- “Sales” means a transfer of goods into another’s ownership, performance of works, and rendering of services.
- For the taxation of goods, works, and services of VAT, the following conditions must be met:
 - The person must be registered as a Registered VAT payer;
 - Sales must be made in the course of business activity.
- The following activities are considered sales of goods, works, and services (GWS):
 - Sales of rights
 - Goods retained at the time of cessation of operations
 - Lottery with cash draw
 - Pay off debts by providing goods, works, and services
 - Goods, works and services (GWS) sold to residents by non-residents
 - Receiving interest and fines due to the wrongful activities of others
 - Subsidies and incentives provided by the state
 - Financing through the sale of receivables (the right to demand)
 - Services of advocacy, and legal consultancy

1.5. VAT PAYER AND REGISTERED VAT PAYER

- As for VAT, the concept of “taxpayer” has a unique meaning:
 - **Taxpayer** means an individual who does not sell goods, works, and services (GWS), but buys or imports it for personal use,
 - **Registered VAT payer** means a person whose VAT sales amount reaches 50 million MNT or more, who is registered in a special register of the Tax Authority and is obliged to withhold VAT and transfer it to the budget,
- Within **10 days** after the sales volume reaches 50 million MNT, a taxpayer will apply to the Tax Office, and the Tax Office will register for VAT taxpayer and issue the certificate within **3 days**.
- The following individuals and legal entities are exempted from the obligation to be registered as registered VAT payers:
 - Sales subject to VAT is less than 50 million MNT
 - Carries out activities on goods, works, and services (GWS), which are exempt from VAT,
- **Voluntary registration:** It is possible to be voluntarily registered as a registered VAT taxpayer if VAT-able sales income is 10 million MNT or more,
- **De-registration of the VAT payer:**
After registering as a registered VAT taxpayer, if it is proved that taxable income or income did not reach 50 million MNT, or it was proved that the activity was not carried out, the Tax Authority will deregister this person as a registered VAT taxpayer and cancel the certificate.
- **Reverse charge rule:** If goods, other works, and services not declared at customs are purchased from a non-resident in the territory of Mongolia, the resident-buyer is obliged to withhold VAT on his behalf.

After reading the general guidance given in this manual, you should carefully read the relevant legal provisions and consult with the tax authorities.

1.6. VAT RATE



- 10 percent: The basic rate will be imposed on all goods, works and services (GWS) sold and imported into the territory of Mongolia.



- 0 percent: VAT will be imposed at /zero/ percent on goods, works, and services (GWS) for export.



- 0-10 percent: The government will determine the VAT rate for imported or produced and sold gasoline and diesel fuel, taking into account industry specifics.



- Sales of the following goods works and services (GWS) are subject to 0% /zero/ VAT:

- Goods exported from the territory of Mongolia and declared with the customs authority;
- International passenger and cargo transportation services rendered from the territory of Mongolia to foreign countries, from foreign countries to the territory of Mongolia, as well as from foreign countries to third countries transiting through the territory of Mongolia under the international treaty to which Mongolia is a party;

- Services rendered outside the territory of Mongolia /including services exempted from value-added tax/;
- Services rendered to a person who is not residing in Mongolia /including services exempted from value-added tax/;
- Services of air navigation management, technical and fuel services to be rendered for domestic and foreign aircraft conducting international flights, and cleaning and services of sale, food, and drinks provided for the crew members and the passengers during the flight;
- The state honorary medals and currency manufactured domestically based on the Government and Bank of Mongolia;
- Final mining products.

- Example: Difference between 10% VAT, 0% and VAT exemption.

Tax rates	10 percent	0 percent	Exemption
Sales:	100 MNT	100 MNT	100 MNT
A. VAT on sales	10 MNT	0 MNT	-
Purchase:	75 MNT	75 MNT	75 MNT
B. VAT on purchases	7.5 MNT	7.5 MNT	7.5 MNT
VAT payable /A-B/	2.5 MNT shall be paid to the budget	-7.5 MNT Shall be refunded	-

1.7. GOODS, WORKS, AND SERVICES EXEMPTED FROM VAT

- The following **GOODS** are exempted from VAT:
 - Goods for personal use allowed for duty-free import through customs;
 - Goods imported for the needs of foreign diplomatic missions, United Nations organizations, and their specialized branches;
 - Goods received from the government of foreign countries, and international organizations for non-refundable and humanitarian aid as well as subsidized loans;
 - Special tools, equipment, and vehicles for disabled citizens;
 - Civil aircraft, engines, and ground simulators, their parts, and components;
 - A building used for residential housing purposes,
 - Therapeutic blood, blood products, and organs;
 - Gas fuel, its containers, equipment, special purpose machinery, hardware, and appliance;
 - Banknotes issued by the Mongol Bank;
 - Sold gold;
 - An experimental product of scientific and research work;
 - Mineral products for export;
 - Parcels by the international post office;
 - Machinery, equipment, materials, chemicals, explosives, and spare parts connected to oil;
 - Oil;
 - Goods purchased by a passenger in the free zone with a value of up to three million MNT.
 - Claim rights issued by banks, non-banking financial institutions, and other legal entities;
 - Cereals, potatoes, vegetables, seedlings, fruits, manufactured flour;
 - Meat, meat products, milk, and dairy products;
 - Equipment and spare parts for small and medium enterprises;
 - Innovation of raw materials, materials, and reagents;

The list of certain goods exempted from VAT is specially approved by the Government, so it is necessary to check the list.

- Imported wood, billets, and wooden materials (lumber);
- Raw, washed, and combed cashmere and leather for export;
- Materials, techniques, equipment, substances and tools used for the study and restoration of cultural heritage;
- Purchased goods, performed work and services rendered for the official activities of diplomatic missions and consulates in Mongolia and for the personal use of their employees;
- Renewable energy equipment, its accessories and spare parts.

- **Goods subject to special VAT rates:**

Based on market conditions, the Government may set the VAT rate on imported diesel and gasoline in a range of 0 to 10 percent.

- The following **SERVICES** are exempted from VAT:

- Services of the banking and non-banking financial institutions, savings and credit cooperatives;
- Insurance services;
- Services to issue securities, shares and guarantees;
- Services of the social and health insurance fund;
- Apartment rent services;
- Educational services;
- Health services;
- Services of a religious organization;
- Services provided by government agencies;
- Public transport services;
- /tour operator/ services provided to foreign tourists;
- Cultural heritage restoration services;
- Funeral service;
- Veterinary services;
- Notary services;
- Virtual asset services.

- Goods and services subject to VAT and exempt from VAT are determined based on the **Classification of all types of economic activity** approved by the Ministry of Finance.

- **Input credit:** If goods and services are exempted from VAT, then VAT on purchased and imported goods and related services will not be deducted.

1.8. TIMING FOR CHARGING VAT

- The deadline for VAT is calculated from the certificate date issued by the Tax Authority.
- The taxation period for VAT is determined by the date on which of the following actions was performed first:
 - The day the seller receives proceeds from the sale of goods, works, and services;
 - The date of payment receipts and claims for the sale of goods, works and services;
 - The date of purchase of goods, works and services.
- The period of taxation of electricity, heat, water supply and communication fixed services is determined by the date of invoice and the date of payment receipt.
- The VAT taxation period is determined on the date of declaration of **imported goods** to the Customs Authority.
- In case of the **financial leasing**, it will be imposed according to the payment schedule.

1.9. VAT RECEIPT, PAYMENT ELECTRONIC DOCUMENT

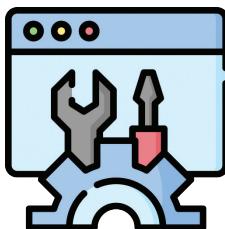
- “VAT receipt” means a paper form or electronic document containing information such as the date of sales and address of the registered VAT taxpayer, taxpayer’s ID number, description of goods, works, services (GWS), code, quantity, unit and total price, VAT amount, etc.
- VAT receipt has a unique number expressed as a numerical value issued by the electronic system.
- Electronic invoices and payment receipts will be done using the VAT electronic document system E-barimt.mn.
- VAT withholding payer shall issue a payment receipt and VAT invoice every time he makes a sale.
- VAT deductions and refunds will be made based on VAT invoices.
- Registration of receipts and electronic documents is always registered in the integrated tax information system.
- Customs declarations are treated as VAT invoices for export and import.

1.10 VAT INPUT CREDIT

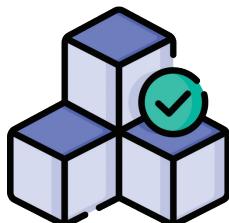
- The VAT system of Mongolia is based on the invoice method, so deductions will be made based on electronic VAT invoices or receipts and customs declarations registered in the integrated data system:
 - Paid to goods, works, and services (GWS) purchased for production and service purposes in Mongolia;
 - Paid for goods imported for sale, production and services;
- The right to deduction arises from the date of applying for registration as a registered VAT payer.
- Meat, milk, eggs, leather, sheep, camel hair, cashmere, yak wool, non-primary processing of livestock and agriculture, five kinds of livestock purposed for the meat processing industry, potatoes, vegetables, fruits and flour of domestic production, if the flour is sold by domestic producers will be considered, that 10% tax is included in the price and will be made deduction (deemed to paid).
- VAT on the purchase of fixed assets will be deducted in the following periods:



Buildings and structures for 10 years /120 months/



Equipment and exploration costs for 5 years /60 months/



Direct deduction for other fixed asset purchases

- VAT on the following purchases is not deductible from VAT on sales:
 - Passenger cars, their parts and spare parts;
 - Goods, works, and services (GWS) for personal and employee needs;
 - Goods imported and purchased for production and services exempt from VAT;
 - Goods, works, services (GWS) not related to the reporting period;
 - Imported and purchased goods, works, and services (GWS) purposed for pre-commissioning activities;
 - VAT withheld from non-residents;
- If purchases with VAT are used for both VAT-taxable and VAT-exempt activities, the deduction will be calculated pro rata.
- The VAT invoice is the main document for VAT deduction.

1.11. VAT REFUNDS AND REWARDS

- Under the VAT Law, the following refunds and benefits are provided:

1. Refund of overpayment to registered VAT payer. If the amount of deduction due in a given month is greater than the amount of tax due in the same period, it is called an overpayment. Overpayments declared by the report of the registered VAT payer will be:

- transferred to tax payable in the next month, quarter or year;
- transferred to other tax payments;
- refunded to the taxpayer.

- A confirmation check will be made to refund the overpayment.
- The Tax Office will confirm within 22 business days of filing a request for an overpayment refund or deduction from other tax debts.
- Confirmed overpayments will be refunded by the Ministry of Finance within 45 working days.
- Refunds will be made monthly to exporters and quarterly to other taxpayers.

2. Providing benefits to VAT payers. 20% VAT paid on purchases will be refunded quarterly to the VAT-payer-consumer individuals.

3. Lottery win. With a VAT purchase number, the lottery win will be conducted under external supervision by randomly blowing eight /8/ balls from the lottery machine. The numbering of the balls consists of ten /10/ digits from zero /0/ to nine /9/.

- The lottery will be held every month.

4. The VAT paid for goods, works and services purchased in the territory of Mongolia for official needs of the **diplomatic missions** and consulates and for personal use of their employees will be refunded monthly.

1.12. LIABILITY TO BE IMPOSED ON VAT LAW VIOLATIONS

- As stated in the General Tax Law (clause 84), taxpayers who violate the law have the following obligations:
 1. **In case of reduction or non-payment of the amount of tax payable to the budget**, the corresponding tax will be imposed and will be fined 40 percent of the tax amount to be imposed.
 2. In case of production, sale, performance of work or services **without being registered as a registered VAT payer**, the corresponding tax will be imposed and will be fined 40 percent of the tax amount to be imposed.
 3. A registered VAT payer who **has not levied VAT on their sold goods, works and services**, VAT will be imposed and will be fined 40 percent of the tax amount to be imposed.
 4. **If the registered VAT payer did not pay its imposed VAT**, tax shall be paid and will be fined 40 percent of the tax amount to be paid.
 5. **If the violation is repeated**. In case of repeated violation revealed by an audit of the Tax Office, a fine is imposed in 50 percent of the applicable tax amount to be imposed.
- Under the Law on Contraventions (violations) (clause 11.19), the following duties are imposed:
 1. **In case of non-payment of tax within the period established by law**, a fine of 0.1 percent of the amount of unpaid tax for each day of delay is imposed.
 2. **Failure to provide payment receipts** is subject to a fine of 2 percent of the sales received for the previous reporting month.
 3. **In the case of issuing a payment receipt with a difference from the selling price**, a fine is imposed on 20 percent of the sales in the previous reporting month.

2.

EBARIMT.MN system and E-Barimt application



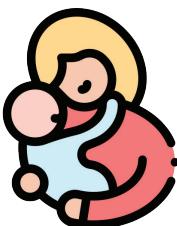
- Since the renewed version of the Law on VAT came into force on January 1, 2016, the ebarimt.mn system was developed to convert VAT paper receipts into electronic form and issue electronic receipts.

With this system:

- Individuals and legal entities can issue electronic sales and purchase invoices, payment receipts, and VAT invoices through the electronic registration system.
- It is available to define a VAT report without the participation of the taxpayer.
- Access to the E-Barimt application is free from your mobile phone and you can register your receipts anytime, anywhere.
- By connecting to E-Barimt private chat via Facebook messenger, you can receive instant 24-hour information about VAT refunds, lottery promotions and E-Barimt.
- Easily register your purchase receipt using your registration barcode.
- The categories of registered receipts are reasonably distributed and bonus amounts can be viewed for each receipt.
- Complaints can be submitted through the mobile application, if the document, registered by QR-code, has been transferred to the status "NOT SENT BY LEGAL LICENSE".
- In simplified mode, you can submit reports, pay taxes, apply for discounts and exemptions, and view taxes paid, as well as operating income and expenses, at any time.
- Payments for government services can be made in 1-3 minutes using the E-Barimt application.
- Social welfare services can be received with an account number registered in the E-Barimt application.
- Using E-Barimt application, citizens can receive 4 types of social welfare services to their current accounts without visiting the bank in person and without wasting time:



The gift of age



Financial assistance to mothers with orders of I, II degrees



Allowance for pregnant mothers



Childcare allowance for children aged 0-3 years

3.

VAT ELECTRONIC REPORTING SYSTEM

- As it is stated in clause 28 of the General Tax Law the taxpayer is responsible for determining the amount of tax payable and paying it to the budget within the period established by law.
- The electronic tax reporting system made it possible to directly determine the VAT report using the information registered in the integrated data system.
- Electronic VAT reports can be prepared and sent for review in the following order:
 1. Review sales and purchase receipts, incorrect receipts, corrected receipts, conflicting receipts, and unverified returns registered in the electronic receipt system.
 2. Log in to the news section of the report and download your export and import customs data.
 3. Rows 5-6 of the TT-03A form will be inactive and will be filled in by the integrated data system in the sales and purchase registration section of the report, so select and use the document entry menu when registering payment receipts. For example, create an invoice to approve unpaid sales, and create a payment receipt for the amount paid each time a payment is made.
 4. After making the necessary adjustments, the report will be **saved** in the integrated data system.
 5. By clicking the **update** button to download data, the report will be filled and the report will be ready.
 6. If the indicators match, click the **Save** button, and then submit the report with the **Confirm** button.

