Asian Development Bank

STUDENTS' MANUAL
(TAXATION)

2023

CONTENT

FOREWORD

During 30 years of the formation of a Modern Tax System in Mongolia, all types of taxes on income, capital, consumption and natural resources have been approved and put into effect. In the future, tax laws such as Inheritance Tax, Gift Tax and Dog Tax are expected to be included in the General Tax Law, and as the economy grows and expands, the methodology for introducing new taxes will become more complex. Looking at new taxes such as air and water pollution payments, genetic resources, and payment for the benefits of using traditional knowledge related to genetic resources it cannot be ruled out that new types of taxes, fees and charges are likely to increase in the future.

The obligation to impose tax and pay taxes in Mongolia is defined in item 17.1.3 of clause Seventeen of the Constitution of Mongolia, which states that “a citizen of Mongolia bears the basic obligation to pay taxes established by law”.

As a result, the rights and obligations to establish taxes and control the implementation of tax laws are determined by other laws:

- Item 1.7 of clause Twenty-five of the Constitution of Mongolia states that “establishment of the main directions of state finance, credit, tax and monetary policy” is within the competence of the State Great Khural;
- Item 5.3.5 of clause 20 of the Law on Government of Mongolia, item 3.3 and clause 7 of the Law on Legal Status of the Ministry of Mongolia states that “The Ministry of Finance and the Finance Minister are responsible for planning, developing, managing, coordinating, analyzing and evaluating tax policy”.
- Item 75.1 of clause 75 of the General Tax Law states: “The Tax Authority is responsible to:

  - 75.1.1. to provide taxpayers with information and advice, and to conduct training and advertising;
  - 75.1.2. to organize the implementation of the tax legislation;
  - 75.1.3. implement the basic functions of budget revenue generation

Taxes may be confusing and uninteresting when you first start studying them, but if you tirelessly study one type of tax and understand its rules, you can easily master the method of paying a total of 30 types of taxes .

1. TAXES, ITS NATURE

From theoretical point of view, the tax is a financial instrument that imposes payment obligations on citizens and legal entities in accordance with the law in order to generate income for the state and local budgets, the state's involvement on market relations. Taxation consists of taxes, Payment and payments.

Besides, being the main source of budget revenues, taxes are one of the main tools used by the government to regulate the country's economy and market relations. For example, customs duties are used to protect domestic production and domestic market from global market competition, while excise taxes are imposed to limit production and consumption of alcohol and tobacco and other unpleasant consumptions.

Taxes are money related issue and secondly, they are directly related to personal income, consumption, capital and business activities, so this is definitely a topic that everyone should be interested in, study and know. Being the main instrument for regulating social, economic and market relations in the country, taxes are the subject of constant attention of politicians, researchers and entrepreneurs.

While the Tax Office is working to collect the tax in full and on time, the taxpayer does not pay more than required by law, therefore always strives to pay a little tax as it is possible or delay the tax payment due date. Therefore, the direction of these two opposite approaches in one direction directly depends on service and activities of the Tax Office, as well as responsibility and ethics of the taxpayer. Due to the above reasons, permanent legal challenges arise between the Tax Office and taxpayers, on the one hand, there are conflicts, disputes, competition and on the other hand, the provision of services and training and public relation works.

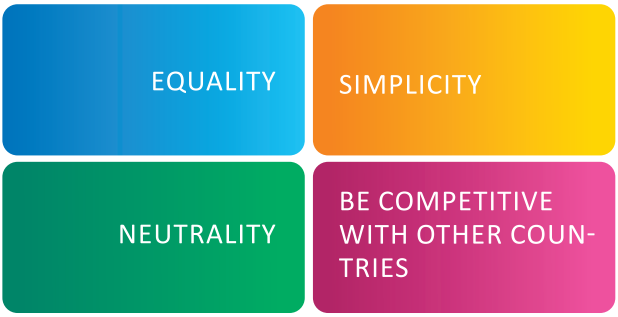
Taxes directly affect income, consumption and wealth, placing an economic burden on everyone, preventing them from paying when they can. However, there are still no other financial mechanisms that could replace taxes, influence market processes and form budget revenues in the conditions of market relations.

A role of the tax to generate budget can be temporarily replaced by issuing government debt, increasing the money supply, charging for public and government services, privatizing government property, and borrowing foreign aid, but these are all have a limited nature.

Therefore, it is necessary to survive in market conditions - to carefully monitor and study the implementation of tax laws, to ensure that tax has the minimum negative impact and pressure as it is possible, and to ensure that it is carried out smoothly, at low cost and correctly, which is the MAIN responsibility of the tax authority.

2. TAX LAW REQUIREMENTS

Taxes can only be established, introduced, changed or abolished by the State Great Khural in accordance with the applicable laws. Therefore, work on the development of tax legislation and its improvement is a permanent task of the Government, including the Ministry of Finance. There are several general parameters to consider when drafting tax legislation:



- Equality means that tax laws apply equally to all and individuals or legal entities with similar income and assets should pay the same amount in taxes. On the other hand, it can be explained that those who have the ability to pay more taxes should contribute more than those who are not.

- Neutrality means that taxes have as little impact as possible on business decisions such as investment, business operations and consumption choices. As tax becomes more important indicator in the choice and in making business decisions, this feature will have more influence.

- The feature of simplicity means that meaning of the law must be clear, its wording, content and structure are correct, and the principles are clear and precise. It should be easy to read, easy to understand and easy to implement.

Nowadays, tax laws are simple, easy to follow, inexpensive to learn and plan, easy to file and report. Simplicity also creates conditions that make it impossible to avoid, evade paying taxes.

- If the structure is not similar to other countries, especially neighboring countries, this will not only negatively affect the outflow of capital from the country, causes the instability of the labor force, but also make it difficult to fully tax cross-border transactions and trade.

Due to the loss of these principles, there were many difficulties in our tax system. For example: In addition to setting the tax rate at 68 percent, the law did not specify the deadline for paying and reporting the tax, due to insufficient enforcement of the law, and this tax was soon repealed.

3. STRUCTURAL MODEL OF THE TAX LAW

Taxes are imposed and collected only in accordance with tax legislation. Therefore, tax laws have a similar structure. For example, the following basic elements are mandatory in the structure of tax law:

WHO?

Determination of taxpayers, their registration and deregistration

IN WHAT?

Determine taxable items

HOW?

Determining the taxable base

HOW MANY?

Determination of tax rates

WHEN?

Timing for withholding, payment and reporting

The quality and economic significance of tax legislation largely depends on formulation of the above main components.

The main part of the Tax Law is an identification of the taxpayer. Taxpayers can be individuals, legal entities, enterprises, foreign enterprises, representative offices. This section includes registration and deregistration procedures.

Taxable item defines what is taxable under the law. It may be levied on income, consumption, or certain types of goods, works, services, assets or natural resources extracted, used or consumed. Therefore, this section is the section that precisely defines the taxable item/object.

Depending on nature of the taxable item, the tax base determination is specified. For example, the tax on firearms is calculated based on the caliber of a gun, cars and vehicles - taking into account engine size and types, corporate income tax is calculated on basis of the difference between income and related expenses, etc.

Tax rates are a key component of the Tax Law. The tax rate can be set as a fixed amount, as a percentage, or as a tax brackets, in which people pay taxes based on the tax bracket that their income places them. Each tax bracket will have a different tax rate, with higher income brackets paying the highest percentages, as well as with a reverse hierarchy.

A matter of timing is an important issue in the Tax Law. The tax legislation should define the period of collection or withholding of tax, payment to the budget and reporting period.

Thus, tax legislation contains the above components, and if any part is unclear, the implementation of the tax law may be ineffective. For example: regarding the windfall tax, due to incomplete design of the part defining tax base and reporting period for payment to the budget, it was not fully implemented that was repeatedly discussed and appealed in the Court and after repeated changes and modification in the law, it was ultimately abolished.

Tax exemptions and tax incentive systems are not included in the basic structure of tax legislation and are included only in cases of extreme necessity. Therefore, if any tax legislation changes, the above set cannot be discussed separately. Since taxes are interrelated, they should be analyzed systematically and comprehensively.

According to the General Tax Law, there are a total of 30 types of taxes in Mongolia, but the Law on Inheritance and Gift Tax, Dog Tax has not yet been approved and enacted.

		Tax name	Taxpayer
TAX	1	Corporate Income Tax	For-profit companies, partnerships and other enterprises and organizations
	2	Customs duty	A person who imports and exports goods across the border
	3	Value Added Tax	Seller and buyer of goods, works and services (GWS)
	4	Excise duty	Alcoholic beverages, tobacco, gasoline, diesel, car manufacturers, importers, owners/users of gambling equipment
	5	Tax on gasoline and diesel fuel	Manufacturer and importer of gasoline and diesel fuel
	6	Personal Income tax	An individual earning income
	7	Real estate tax	Individuals and legal entities who own real estate
	8	Livestock tax	A person with livestock, a herdsman
	9	Tax on automobiles and vehicles	Owner of cars and self-propelled vehicles in Mongolia
	10	Tax on firearms	A person who owns a gun or firearm
	11	Capital city tax	Buyers of alcohol, tobacco, users of bars, hotels, resorts and hotel services

TAX	12	Dog tax	(no law passed)
	13	Inheritance and gift tax	(no law passed)
PAYMENT	14	Mineral royalty payment	Mineral resource miners, users and resellers
	15	Payment for mineral exploration and exploitation licenses	Holder of a special permission license for mineral exploration and exploitation
	16	Air pollution payment	Coal miners and owners of air pollution sources
	17	Payment for water pollution	A person who produces waste and pollution using water
	18	Oil royalty payment	Oil producer
	19	Payment for exploration and exploitation of oil and unconventional oil	Holder of a special permission license for oil exploration and production
	20	Land payment	A person who has the right to own and use land in accordance with the law
	21	Payment for use of natural plants	A person who picked plants from nature
	22	Water usage Payment	A person who uses natural water
	23	Payment for the use of springs	A person who uses the spring
	24	Forest payment	A person who uses wood and firewood from forest resources
	25	Natural resource payment	A person who catches or hunts animals
	26	Commonly distributed mineral royalty payment	A person who mined common minerals such as sand, gravel
	27	Payment for benefits from the use of genetic resources and traditional knowledge related to genetic resources	The holder of a special permission license related to genetic resources
FEES	28	Stamp duty	Government service recipient
	29	Payment for permission to use natural resources other than minerals	A person applying for permission to use natural resources
	30	Waste Service fee	Person producing waste

4. BASIC PRINCIPLES OF TAX COLLECTION

Tax systems from the perspective of taxation and collection are built on following principles:

Self-assessment system	The principle of tax collection by the tax office

The principle of tax collection by the tax office the tax system of Mongolia operates on the principle of self-assessment system, i.e. the taxpayer pays the tax himself. In accordance with this principle, taxpayers are responsible for calculating and reporting their own taxes to the budget, and the Tax Office is responsible for providing taxpayers with information, providing methodological assistance and services, accurately determining their taxes, as well as providing facilities, infrastructure and necessary conditions for payment within the time limits established by law.

Taxpayers are liable for incorrect or incomplete taxes. This principle will significantly reduce the cost of tax collection, but requires that the Tax Office must be a service provider, promoter, educator and research institution.

The principle of tax collection by the tax office or the principle of official assessment, has become quite popular in recent years in countries around the world. In particular, with development of information technology, the principle of determining tax payables by the tax authorities is rapidly developing.

As of Mongolia, the General Tax Department allowed the determination of monthly VAT payments for registered VAT payers based on electronic documents and customs information. In the future, on the basis of an integrated information system, Mongolian tax system are moving towards official assessment system that a taxpayer must pay if they agree to pay taxes assessed by tax office, and if they do not agree, then inform them about the response and reconcile it from both sides.

Currently, the tax authorities are able to determine property taxes such as a land tax, immovable property tax, firearms tax, vehicle tax, livestock tax, natural resource payments, as well as air and water pollution payment.

Except the above options, the withholding tax method is widely used by the tax authorities. It is a low cost method of collecting taxes at source. The withholding system is widely used in Mongolia, and along with development of the electronic tax system, the role and significance of this method is improving.

5. TAX AUTHORITY AND ITS ORGANIZATIONAL STRUCTURE

In principle, the structure of tax offices is divided into the following 3 main groups:

By tax type /income, property taxes, payment, etc./	By functional activities /taxpayer registration, service promotion, tax collection, inspection, Information Technology (IT) department, etc./	By taxpayer category /large, small and medium taxpayers, with foreign and domestic investors, etc./

The Tax Office of Mongolia is classified as organized by type of functional activity, but has a mixed system. This is due to the fact that the structural subdivisions of the Tax General Authority, regional, capital city and district tax departments are organized on an operational basis, i.e. taxpayer services, tax collection, tax audit, etc. However, a tax jurisdiction can be defined as having a mixed structure based on the classification of large taxpayers, medium taxpayers, small and micro taxpayers.

The efficiency of the Tax Office is measured by an indicator called tax collection costs, which is the ratio budget of the Tax Office to the total amount of collected tax revenues. As of 2021, this amount is 0.22 mungu or 0.2 mungu for tax collection of 1 tugrug. It means that the Tax Office spends 1 tugrug to collect 500 tugrug in taxes.

In addition, there are many quality indicators for assessing the activity level of tax authorities:

1. Skills of tax inspectors (level of education and qualification, ability to advise taxpayers and detect tax violations)

2. As of institution (budget, equipment, the right to disclosure, the right to encroach on property, and the right to interpret the law)

3. Service level (human and financial resources for services, use of information technology and database utilization level)

4. Reputation of the Tax Office (especially employees must be respected and have a good reputation in society)

In order to control the implementation of tax laws, the Tax Office is required to work in constant contact with the state and local government, administrative organizations, as well as other organizations specified in the General Tax Law. On the one hand, this is a matter of control over the implementation of tax laws, and on the other hand, this is an operation that provides information to taxpayers and saves them from any tax risks.

The most important indicator of the Tax Office is that the tax authority and the state tax inspector must deliver their service and duties according to law.

[1] 1 mongolian tugrug=100 mungu

6. TAXPAYER

The clause seventeenth of the Constitution of Mongolia states that “the payment of taxes imposed by law” is the basic duty of every citizen. Thus, individuals, legal entities, non-resident foreigners, stateless persons, foreign enterprises that are not located on the territory of Mongolia and their representatives are required to pay taxes in accordance with the law of Mongolia,

Each Tax Law defines a taxpayer, and registration of taxpayers, his rights and obligations are specified in the General Tax Law and other tax laws.

Taxpayers are required to pay taxes by law, but they strive to pay little taxes as it is possible, and in order to pay taxes they seek to receive much support and services from the state as possible.

Therefore, the tax authorities are obliged constantly to inform and explain the rights and obligations of taxpayers and their responsibilities.

In comparison with other countries, the rights of taxpayers in Mongolia are considered quite broad. In addition, the Tax Office is obliged to respect the legal interests of taxpayers and pay more trust in taxpayers.

In terms of duties, it is in line with the general standards of other countries. However, there is strict accountability in relation to the system of liability imposed on violators of tax laws and regulations.

Since one taxpayer is obliged to pay many types of taxes, he uses a taxpayer number (registration number of an individual and a legal entity), and the use of this number within the country is of great importance for the tax authorities.

Registration of a taxpayer is the first stage and the most responsible activity of the Tax Office. From this stage the task of informing and serving taxpayers begins, so it is important to establish a good relationship from the very beginning.

As type of taxes is increased, significant costs will be required for the implementation of each tax legislation, the filing of tax reports, the payment of taxes and the storage of documents. It is called tax compliance costs, and the Tax Office invests in the direction of reducing compliance costs as much as possible, and directs advertising and training services in this direction. The electronic information system plays an important role here.

7. TAX REFORM, ITS GOAL

Tax reform is an endless process. The tax environment will evolve as the market develops and changes, socio-economic policies and trends.

Tax reform does not mean introducing new taxes or changing rates. Rather, it means making comprehensive changes to tax policies and systems to accommodate market, social and economic conditions and trends.

Most importantly, tax reform should be fairer, simpler, more empowering for taxpayers and should make business environment more favorable.

Mongolia carried out major tax reforms in 2006 and 2019. It was a major reform aimed at reversing the trend of economic transition by reducing the tax burden, reducing compliance cost, creating free and fair competition, creating a favorable investment climate by removing preferential treatments for foreign investors.

Tax reform is being planned and implemented when previous policies have served their purpose and new conditions have arisen in which greater results can be achieved in the future. But here, instead of tax reform, one should talk more about stability of the tax legal environment and main conditions for reducing the compliance cost and tax collection costs.

In the future, there will be many proposals to reform tax laws of Mongolia and these should be closely aligned with all government policies such as social security, investment and industrialization policies.

To carry out tax reform, internal and external conditions are necessary, and external conditions depend on trends of the world market, regional and neighboring countries, and state of the country's economy. These circumstances should prove the need to change the tax legislation. The internal situation refers to a decrease in the implementation of legislation due to the fact that tax legislation does not correspond to the activities of taxpayers.

Due to changes in structure of the economy of Mongolia and growth of exports of mining and mineral raw materials, the volume of budget revenues has sharply increased, and the volumes of budget investments and social welfare activities have increased every year.

However, basic tax rates are at the lowest possible level. Since at some point there will be a need to increase the rate due to market demand, instead of lowering the rate, other sets of tax laws should be used as adjustments, such as increased deductions and exemptions, increased deductible expenses and tax cuts, to reduce the frequency of tax payments. The change in the tax rate is the most vulnerable and sensitive change.

The Tax Authority of Mongolia along with general trend of world, is successfully moving towards the official assessment principle of determining the tax payments of individuals and legal entities as accurately as possible based in modern information technology and data system.

8. TAX POLICY AND DIRECTIONS TO BE IMPLEMENTED IN 2021-2030 AS PART OF THE DEVELOPMENT POLICY "VISION-2050"

After gaining knowledge about the tax system and its functions, it might be interesting to review the tax policies that are expected to enter the tax system of Mongolia in coming 10 years. Therefore, in this booklet we are including tax policy direction which are included in the Development policy "Vision-2050" approved by the State Great Khural:

To reduce consumptions that adversely affect health of the population, government shall distribute a certain part of the excise tax on alcohol, tobacco, medicines and sugary drinks into a health support fund for financing activities to prevent diseases among the population and reduce risk factors.

Reduce the production and trade of high-calorie, trans-fat, sugar, and salt-rich foods and drinks through tax policy, and create a Food Safety Law and legal framework.

Taxes on import, luxury goods and regulation will be effectively implemented through international agreements and negotiation.

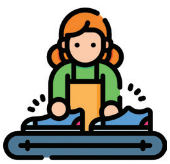
Special taxes will be created by diversifying municipal taxes.

Increase the amount of green space in Ulaanbaatar city, intensify and support cultivating activities in the city, create optimal stimulus for funding, taxes, loans and incentives.

The government will support private sector investment in research and development (R&D) through the policy and tax environment.

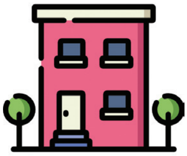
Ensure the stability of government policy and tax legislation, create an enabling environment for protecting investors and attracting investment.

Techno parks and innovative tax-free zones necessary for the development of the national innovation system will be created on the basis of a joint office.

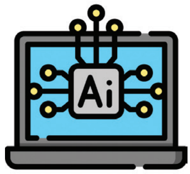


Enterprises that have created, implemented and localized advanced and new technologies, products and services in leading industries will be supported by customs, tax and credit policies.

To support consumption of improved and cleaner fuels, Value Added Tax exemption shall be considered.



By providing tax and financial support to enterprises implementing housing projects, a certain percentage of apartments will be rented to people with low and middle incomes, and affordable housing will be provided by selling at low price.



Create a land valuation, payment, taxation and exchange system based on artificial intelligence and block chain technology.

Implement new tax legislation and expand a revenue base of the budget.