

LAW OF MONGOLIA

March 22, 2019

Government Palace Ulaanbaatar City

ECONOMIC ENTITY INCOME TAX /Revised/

CHAPTER ONE GENERAL PROVISIONS

Article 1. Purpose of the Law

1.1. The purpose of this law is to regulate relations pertaining to imposition of economic entity income tax, payment of the tax to budget, and its reporting.

Article 2. Legislation on Economic Entity Income Tax

2.1. The legislation on economic entity income tax (hereinafter referred to as 'tax') shall comprise of the Constitution of Mongolia, General Taxation Law, this Law, and other legislative acts enacted in conformity with these.

Article 3. Scope of the Law

3.1. This law shall regulate relations concerning taxation of income of taxpayers located in and outside of Mongolia.

Article 4. Definition of terms in the Law

4.1. The following terms used in this law shall have the following meanings:

4.1.1. "Economic entity" means a company, partnership, cooperative, state-owned or locally-owned enterprise that is registered in the state registry and carries out business activities, a similar legal entity or non-entity entity obliged to pay income tax, and domestic and foreign legal entities that have earned income from the sale of goods, performance of work and provision of services even though their core business is not for profit;

4.1.2 "Intangible asset" refers to a non-material asset specified in Article 84.5 of the Civil Code;

4.1.3 "Realized foreign exchange gain/loss" means gain/ loss derived from sale or purchase of foreign currency and settlement of receivables and payables denominated in foreign currency;

4.1.4 "Income earned in a foreign country" refers to income other than those stated in the Articles 4.1.6 and 4.1.7 of this Law earned by taxpayer or permanent establishment specified in the Article 5.3 of this Law;

4.1.5 "Expenses for ceremonies and events" means transportation costs, reception, hotel, restaurant expenses and interpreter fees incurred for the reception of guests and representatives for

the purpose of establishing new business relations and expanding cooperation within the scope of business activities.

4.1.6 "Income earned in Mongolia" means an income specified in the Article 7.4 of this law that was earned by a taxpayer in the territory of Mongolia.

4.1.7 "Income earned from a source in Mongolia" shall include the following income of a taxpayer:

4.1.7.a. income earned from sale of goods, works performed and services provided by a non-resident taxpayer directly or electronically and paid by a resident taxpayer or a Permanent Establishment residing in Mongolia.

4.1.7.b. Income a foreign business entity specified in 5.5.2 of this law earned from arts, culture, sports, and other events organized in Mongolia.

4.1.7.c. dividends distributed by a resident taxpayer in Mongolia to a non-resident taxpayer.

4.1.7.d. interest income related to the Article 9.4 of this law and paid or transferred by a state or local government organization, or a resident taxpayer or Permanent Establishment to a non-resident taxpayer.

4.1.7.d. income from sale, transfer and rent of assets in Mongolia and rights related to the assets owned, possessed, or used by a non-resident taxpayer.

4.1.7.e. Income of non-resident taxpayer paid by a resident taxpayer as royalty, payment for lease, use of, and right to use immovable and movable assets, intangible assets, financial lease interest, and technical, management, consultancy, and other services.

4.1.7.f. Income transferred from a Permanent Establishment to a non-resident taxpayer operating in Mongolia through the Permanent Establishment.

4.1.7.g. Income of a non-resident taxpayer earned from sale and transfer of assets possessed, used, and owned by a Permanent Establishment and rights related to those.

4.1.7.h. Income of a non-resident taxpayer earned from sale or lease of movable and immovable property, or intangible assets used in operations of the Permanent Establishment.

4.1.7.i. Other similar income to those specified in 4.1.7.a-4.1.7.h of this Law.

4.1.8. "Withholder" shall mean as defined in 6.1.19 of the General Tax Law;

4.1.9. "Immovable property" shall mean as defined in Articles 84.3 and 86.2 of the Civil Code;

4.1.10. "Exploration expenses" refers to expenses specified in Articles 4.1.6 of the Minerals Law and Article 4.1.8 of the Petroleum Law, and expenses incurred directly in relation to exploration of radioactive minerals that were documented.

4.1.11. "Related Parties" refers to parties defined in Article 27 of the General Tax Law;

4.1.12. "Right holder" means a person holding mineral, radioactive minerals, oil exploration and/or mining licenses, and/or land possession and ownership right under the conditions and requirements specified in the law.

Article 5. Economic Entity Income Taxpayer

5.1. An economic entity that has earned taxable income or is obliged to pay tax in accordance with the law although has not earned income in the given tax year but shall be a taxpayer.

5.2. A taxpayer shall be classified as a resident and non-resident taxpayer of Mongolia.

5.3. Resident taxpayer of Mongolia shall include the following economic entities:

5.3.1. An economic entity incorporated under the laws of Mongolia.

5.3.2. A foreign economic entity that has its effective place of management located in Mongolia.

5.4. A foreign economic entity that has its effective place of management located in Mongolia as specified in Article 5.3.2 of this Law means a foreign legal entity meeting three or more of the following criteria:

5.4.1 More than 50% of its shareholders or shareholders, who practice their shareholding rights and responsibilities directly or in-directly through their representatives, reside in Mongolia;

5.4.2. more than 50 percent of all shareholders meetings in the four consecutive years preceding the tax year were held in Mongolia;

5.4.3. Accounting and financial documents are maintained in Mongolia;

5.4.4. At least 25 percent of the members of the Board of Directors or persons directly or indirectly exercising the rights and duties of a Member of the Board of Directors through their representatives reside in Mongolia;

5.4.5. At least 60 percent of total sales revenue is earned in Mongolia and /or from a source in Mongolia.

5.5. Non-resident taxpayer of Mongolia shall include the following economic entities:

5.5.1. A foreign economic entity operating in Mongolia through its Permanent Establishment;

5.5.2. A foreign economic entity earning income in Mongolia or from a source in Mongolia in a form other than that specified in the Article 5.5.1 of this Law;

Article 6. Permanent Establishment

6.1. A "Permanent Establishment" refers to a unit that runs businesses of a taxpayer specified in Article 5.5.1 of this Law in full or in part in Mongolia.

6.2. A Permanent Establishment defined in Article 6.1 of this Law shall include the following units:

6.2.1. a place of management;

6.2.2. a branch or a unit;

6.2.3. a place where trainings, seminars and exhibitions are held;

6.2.4. warehousing, trade, and service place;

6.2.5. mine, an oil, or gas well, a quarry or any other place of extraction of natural resource;

6.2.6. a factory

6.2.7. other places, unit or place applicable to Article 6.1 of this Law;

6.3. A building site, a construction, assembly or installation project or supervisory activities in connection therewith, but only where such site, project or activities continue for a period of more than 90 or more days within 12 consecutive months shall be deemed as a Permanent Establishment.

6.4. The furnishing of services, including technical, consulting, management, supervisory and other services, through employees or other engaged personnel to a resident taxpayer in Mongolia for a period of 183 days in 12 consecutive months.

6.5. The period specified in the Articles 6.3 and 6.4 of this Law shall be counted as a total period spent for performing the similar or a connected works and services.

6.6. Person who conducts the following activities in Mongolia on behalf of a non-resident taxpayer shall be deemed to be a Permanent Establishment:

6.6.1. stores, sells, and supplies of goods; and

6.6.2. Concludes a contract independently or organizes conclusion of a contract without making changes in the principal conditions of the contract of a non-resident taxpayer.

6.7. A contract that contains one of the following characteristics shall be considered a contract specified in 6.6.2 of this Law:

6.7.1. Concluded in the name of a non-resident taxpayer of Mongolia.

6.7.2. Transfer of assets that a non-resident taxpayer owns, or is entitled to possess or use, or transfer of the title to possess or use the asset to others.

6.7.3. Provide services of a non-resident taxpayer.

6.8. Notwithstanding the Articles 6.1, 6.2, 6.3, 6.4, 6.5, 6.6 & 6.7 of this Law, a non-resident taxpayer shall be deemed to have a Permanent Establishment in Mongolia if they receive insurance premiums in Mongolia in the form other than re-insurance or carries risks insurance therein through another person.

6.9. The term “Permanent Establishment” in a valid international agreement for avoidance of double taxation and prevention of fiscal evasion with respect to taxes on income ratified by the Parliament of Mongolia shall mean the same as the Permanent Establishment specified in this Law.

6.10. Head of the government administrative agency in charge of tax matters shall approve reporting forms of a Permanent Establishment, and procedures for registration and de-registration of and filing and paying taxes by the Permanent Establishment.

CHAPTER TWO TAXABLE INCOME

Article 7. Taxable Income

7.1. Income earned for the tax year in Mongolia, or earned from a source in Mongolia, or in foreign country by a taxpayer specified in the Article 5.3 of this Law shall be subject to tax.

7.2. Income earned through a Permanent Establishment for the tax year in Mongolia in connection with the activities of the Permanent Establishment, or from a source in Mongolia by a taxpayer specified in the Article 5.5.1 of this Law shall be subject to tax.

7.3. Income earned in Mongolia or from a source in Mongolia by a taxpayer specified in Article 5.5.2 of this Law for the tax year shall be subject to tax.

7.4. The following income of a taxpayer shall be subject to tax:

7.4.1. Income from activities;

7.4.2. Income from property;

7.4.3. Income from the sale or transfer of assets;

7.4.4. Other income

7.5. Tax-exempt income shall be deducted in determining the amount of taxable income.

Article 8. Income from activities

8.1. The following incomes from activities of a taxpayer shall be subject to tax:

8.1.1 income from sale of goods, works, and services;

8.1.2 income from operating a quiz, gambling, and lottery business;

8.1.3. income from technical, management, consulting, and other services;

8.1.4. income from goods, works, and services received from others free of charge; and

8.1.5. other similar incomes to those specified in the Articles 8.1.1, 8.1.2, 8.1.3, & 8.1.4 of this Law.

8.2..The “technical service income” specified in Articles 6.4 and 8.1.3 of this Law shall refer to income earned from works and services related to introducing new technologies, development of documents on labor and technical safety, labor and consumption norms, and calculation of materials and inventory for production, works and services, conducting socio-economic research, audit services, equipment installation, maintenance, assay testing, training of engineers and technicians, and professional development.

8.3. “Income from management services” specified in Articles 6.4 and 8.1.3 of this Law shall refer to income earned by an economic entity from providing services to improve efficiency of business operations /production, works and services/ through its specialists based on a contract or mutual agreement.

8.4. “Income from consulting services” specified in Articles 6.4 and 8.1.3 of this law shall refer to income earned from works and services such as providing technical and methodological assistance to economic entities on management, marketing, market and investment environment, and stages of production activities, and preparing documentation.

8.5. The above-mentioned income of a taxpayer engaged in business activity to earn income from assets, or the sale and transfer of assets according to the International Accounting Standards, shall be considered as income specified in Article 8.1.1 of this Law.

Article 9. Income from assets

9.1. The following income of a taxpayer from assets shall be subject to tax:

9.1.1. Income from movable and immovable property;

9.1.2. Income from royalties;

9.1.3. Income from dividends; and

9.1.4. Income from interest.

9.2. Income from royalties specified in Article 9.1.2 of this Law shall include the following receipts:

9.2.1. Receipts for use of, a right to use copyrighted works specified in the Law on Copyright and Corresponding Rights.

9.2.2. Receipts for use of, or a right to use inventions, product prototype, and useful design specified in the Patent Law;

9.2.3. Receipts for use of, or a right to use trademarks specified in the Law on Trademark and Geographic Specification.

9.2.4. Receipts for transfer of technology specified in the Law on Transfer of Technology;

9.2.5. Receipts for use of, or a right to use information related to production, trade, and scientific experiment;

9.2.6. Receipts for use of, or a right to use industrial, trade, or scientific experiment equipment; or

9.2.7. Receipts for use of, or a right to use other similar rights to those specified in the Articles 9.2.1-9.2.6 of this Law.

9.3. Income from dividends specified in 9.1.3 of this Law shall include income in monetary and non-monetary forms earned from shareholding, partnership or cooperation agreement, profit share, and other income considered as dividend in accordance with the legislation of Mongolia.

9.4. Income from interests specified in Article 9.1.4 of this shall include income received by a taxpayer from the borrower in connection with all types of debts, payables, current and savings accounts, guarantees, securities, loans, borrowings, bonds, debt instruments and their incentives, regardless of whether it is secured by collateral or whether the borrower has the right to participate in the asset, and other income considered as interest income under the legislation of Mongolia.

Article 10. Income from sale and transfer of assets

10.1. The following income from sale or transfer of assets shall be subject to tax:

10.1.1. Income from sale of immovable property;

10.1.2. income from sale or transfer of a right issued by a government agency;

10.1.3. income from sale of shares, securities, and other financial instruments;

10.1.4. notwithstanding the Articles 10.1.2 and 10.1.3 of this Law, income from sale or transfer of intangible assets and movable property.

10.2. Income from the sale of intangible assets specified in Article 10.1.4 of this Law shall include income from the sale or transfer of the right to own, use and possess intangible assets other than those specified in 10.1.2 and 10.1.3 of this Law.

Article 11. Other income

11.1. The income specified in Article 7.4.4 of this Law shall include the following income:

11.1.1. income from interest, penalty, and compensation for damages caused by infringement of contractual duties;

11.1.2. income from a prize of quiz, gambling, and lottery;

11.1.3. profit transferred from a Permanent Establishment to its parent company in the tax year.

11.1.4. realized foreign exchange gain;

11.1.5. Cash returned in accordance with Article 9.11 of the Law on Environmental Impact Assessment, and Articles 11.1.4 and 12.5 of the Petroleum Law.

11.1.6. insurance indemnity

Article 12. Recognition of taxable income

12.1.A taxpayer shall recognize income according to the following conditions:

12.1.1. when the goods are shipped or loaded;

12.1.2. based on the percentage of completed work.

12.1.3. When service income is received, or the conditions specified in the contract are met;

12.1.4. Each time other income is realized, and income is received.

12.2. In case of exchange of goods, works and services by a taxpayer, taxable income shall be recognized on the day of receipt of goods, works and services.

CHAPTER FOUR EXPENSES DEDUCTIBLE FROM TAXABLE INCOME

Article 13. Requirements for expenses deductible from taxable income

13.1. Expenses that meet the following conditions simultaneously shall be deducted from taxable income:

13.1.1. related to the tax reporting period;

13.1.2. incurred causally relating to the taxpayer's operations to generate the taxable income;

13.1.3. expenses realized and supported by the documents specified in Article 13 of the Law on Accounting and relevant records;

13.1.4. expenses related to the following goods, works and services shall be supported by a payment receipt with a unique number specified in Article 28.5 of the General Tax Law and a document substantiating payment of import duty to the customs in the case of imported goods:

13.1.4.a. Expenses for works and services provided by a taxpayer other than those specified in provision 5.5.2 of this Law;

13.1.4.b. Expenses related to acquisition of movable and immovable property and intangible assets.

13.1.5. Expenses paid or reported as payable paid the taxpayer who conducts the business activity.

13.2. Expenses that meet the conditions specified in 13.1 of this Law shall be deducted from taxable income with the following limits and conditions:

13.2.1. Taxes, payments, and fees shall be reported to be paid to the budget;

13.2.2. Business trip expenses shall not exceed twice the business trip expenses norm for civil servants;

13.2.3. Reserve accumulated to protect against losses that may incur in repayment of loans to bank, and non-bank financial institutions shall not include any reserve established on outstanding balance of normal loan portfolio;

13.2.4. Expenses incurred in clearing the damages caused by disaster as specified in the Disaster Management Law shall be verified by the conclusions of a relevant agency;

13.2.5. Expenses for ceremonial events shall not exceed 5 percent of the total amount of salary expenses paid to employees who have concluded an employment agreement or contract specified in the Labor Law in the tax year;

13.2.6. The amount of voluntary insurance premiums of insurers other than those specified in Article 4.1.2 of the Law on Insurance shall not exceed 15 percent of the taxable income for the tax year;

13.2.7. The amount of voluntary insurance premiums charged by an insurer to its related parties specified in Article 4.1.2 of the Insurance Law shall not exceed 15 percent of the taxable income for the tax year;

13.2.8. Regular maintenance expense including the cost of spare parts shall not exceed 2 percent of the residual value of an immovable property and 5 percent of the residual value of other assets, and the cost of regular maintenance more than this shall be accounted as capital maintenance expense;

13.2.9. Social and health insurance premiums and personal income tax shall be imposed and withheld from salaries, wages, allowances, or similar income to those;

13.2.10. Personal income tax shall be imposed and withheld from indirect income specified in Article 11 of the Personal Income Tax Law;

13.2.11. Interest expenses shall be determined in accordance with Article 14 of this Law;

13.2.12. In issuing a payment subject to tax, the relevant tax shall be withheld and reported.

13.3. Expenses incurred in relation to holding or obtaining a mining license shall be deducted from operating expenses in equal amount every year over the effective period of the license.

13.4. The cash savings of the license holder and contractor reserved for environmental rehabilitation and mine closure under the Minerals Law, the Petroleum Law, and the Nuclear Energy Law shall be deducted from operating expenses in equal amount every year over the effective period of the license.

13.5. Expenses to be deducted from taxable income of a holder of a mineral, radioactive mineral, petroleum exploration, and mining license shall be calculated for each report under Articles 26.9, 26.10, 26.11, 26.12, and 26.13 of this Law.

Article 14. Interest expense deductible from taxable income

14.1. Interest expenses incurred in connection with the transfer of income specified in Article 9.1.4 of this Law to others shall be deductible from taxable income.

14.2. The amount of deductible expenses specified in Article 14.1 of this Law for all transactions between related parties shall be limited to 30 percent of the total sales revenue, less expenses that meet the conditions and requirements specified in this Law, but before interest, depreciation, and amortization for the reporting period.

14.3. Notwithstanding Article 14.2 of this Law, interest paid by an investor on a loan exceeding three folds of his previous investment made to the taxpayer shall not be deductible from taxable income and shall be taxed as dividends paid to the investor.

14.4. The “previously investment” stated in Article 14.3 of this Law shall include investments made through purchase of common shares, preferred shares, or shares from an investor.

14.5. The limitations set in Article 14.2 of this Law shall not apply to an economic entity licensed to conduct activities specified in Articles 6.1.1 and 6.1.2 of the Banking Law and Article 7.1.1 of the Law on Non-Bank Financial Activities.

14.6. Interest expense on loan received from a permanent resident of Mongolia who owns shares of a taxpayer shall not be deductible from the taxable income of the taxpayer.

14.7. Articles 14.1, 14.2, 14.3, 14.4, and 14.5 of this Law shall equally apply to a Permanent Establishment.

Article 15. Other expenses deductible from taxable income

15.1. The following expenses that meet the requirements set forth in Article 13 of this Law may be considered as expenses deductible from taxable income:

15.1.1. Normal amortization of goods and materials;

15.1.2. Health and social insurance premiums;

15.1.3. Taxes, payments, and fees reported as payable to the budget other than those specified in Article 16.1.8 of this Law;

15.1.4. Expenses for facilitating training environment for vocational training centers, providing equipment for training centers and renovating the centers;

15.1.5. Expenses for the training of teachers specified in Articles 11.5 and 18 of the Law on Vocational Education;

15.1.6. Financial support provided to vocational education and training institutions to get professionals trained;

15.1.7. Donations of up to MNT 10 million to support a non-governmental organization founded by a citizen of Mongolia with disabilities;

15.1.8. Donation of up to MNT10 million contributed to the Sports Support Fund to support the activities of sports associations and clubs;

[/This Article was amended by the law approved on November 13, 2019. /](#)

15.1.9. Donations and funds contributed to the vocational education and training support fund;

15.1.10. Donations to reduce air pollution;

15.1.11. Assets deposited in a fund to protect against exposure in repayment of loans to banks and non-bank financial institutions;

15.1.12. Assets deposited in the credit risk fund of a savings and credit cooperative and the risk fund of a cooperative engaged in other activities;

15.1.13. Cash deposited in a special fund established by the relevant government agency, the treasury, and the account specified in Article 11.2.9 of the Petroleum Law as reflected in the annual environmental management plan of the mining license holder, project implementer, and contractor, under the Law on Environmental Impact Assessment, the Minerals Law, the Petroleum Law, and the Law on Nuclear Energy;

15.1.14. Expenditures accumulated in the Senior Citizens Fund within the limits specified in Article 14.7 of the Law on Senior Citizens.

15.2. The amount of amortization specified in Article 15.1.1 of this Law shall be approved by the Government.

Article 16. Expenses that are not deductible from taxable income

16.1. The following expenses shall not be deducted from taxable income:

16.1.1. Expenses that do not meet the conditions and limitations specified in Articles 13.1 and 13.2 of this Law;

16.1.2. Principal payment of the lessee's leased assets;

16.1.3. Payments, interest, fines, and penalties paid to others for non-performance of contractual obligations;

16.1.4. Recreation and other similar expenses for employees and client organizations and individuals;

16.1.5. Losses on the sale of assets to related parties;

16.1.8. capital city tax, value-added tax, value-added tax withheld and paid to the budget and tax withheld from income earned by other persons in accordance with this law;

16.1.6. Interest payments, the rent and lease payment for movable and immovable property, royalties, technical, management, consulting, and other services payments transferred by a Permanent Establishment to its parent company;

16.1.7. Expenses incurred in connection with earning the tax-exempt income specified in this Law;

16.1.8. Capital city tax, value-added tax paid to the budget by a withholder and tax withheld from income earned by other persons under this Law;

16.1.9 unrealized foreign exchange loss;

16.1.10. additions to the value of a good through revaluation;

16.1.11. Loans paid off from the credit risk fund of an economic entity that runs a bank or non-bank financial institution, or a savings and credit cooperative;

16.1.12. Donation and grant expenses other than those specified in 15.1.6, 15.1.7, 15.1.8, 15.1.9, and 15.1.10 of this Law

Article 17. Calculation of depreciation and amortization

17.1. Depreciation and amortization of a taxpayer's assets with useful life of one or more years shall be calculated as follows:

№	Assets group	Useful Life /years/	
		For a holder of mineral, radioactive minerals, oil exploration and mining license	Other
1	Construction and landscaping	40	25
2	Machinery, equipment, and production equipment	10	
3	Computers, peripherals, and software	2	
4	Intangible assets with a definite useful life (this includes mineral exploration and mining licenses).	Over the validity period	
5	Other assets	10	

17.2. Depreciation and amortization shall not apply to additions to the value resulted from revaluation.

17.3. Depreciation and amortization of assets shall be established by the straight-line method.

17.4. The costs of purchase, construction, assembling, transportation, and insurance related to transportation of a non-current asset shall be included in the valuation of the asset subject to depreciation and amortization.

17.5. Capital maintenance expense specified in 13.2.8 of this Law shall be added to the residual value of the asset, and depreciation and amortization shall be calculated for the remaining period of useful life of the asset.

17.6. If an asset is used partially to generate taxable income, depreciation, and amortization shall be calculated proportionate to the used part and deducted from the taxable income.

17.7 Current assets, land, inventory stocks, fine art, antiques, precious items, and other similar assets are not subject to depreciation.

17.8. If a taxpayer purchases a building and other asset together, the purchase price shall be allocated to each purchased asset. If the building is purchased to be demolished and to construct a new building on the site, the cost of demolishing the building and the purchase price shall be included in the construction cost.

17.9. If a taxpayer ceases irrevocably to use a depreciable asset to generate taxable income, the higher of a residual value and fair market value of that asset shall be considered as income from sale of the asset and be subject to tax.

17.10. The total value of a leased asset of the Lessee shall be equal to the sum of all lease payments and shall be depreciated over the term of the agreement.

17.11. The depreciation, and amortization of a taxpayer's newly acquired asset in the given quarter shall be established from the first day of the following month.

17.12. The depreciation and amortization of assets at the construction stage shall be established from the first day of the following month of the date when it is registered as a fixed asset, use for its intended purpose.

17.13. A holder of an exploration license for minerals and radioactive minerals and a contractor specified in the Petroleum Law shall accumulate and capitalize the exploration expenses, license fees, expenses related to holding, transfer and acquisition of licenses as exploration and evaluation asset and shall depreciate it over the lifetime of the mine or site.

17.14. The cash transferred to the special fund specified in Article 38.1.8 of the Minerals Law, the account specified in Article 11.2.9 of the Petroleum Law, and the fund specified in Article 28.9 of the Nuclear Energy Law funds by an exploration license holder shall be accounted as exploration and evaluation asset specified in Article 17.13 of this Law.

17.15. The "Landscaping" specified in Article 17.1 of this Law shall not include the stockpiling expenses related to mining operations.

CHAPTER FOUR DETERMINING THE TAXABLE INCOME

Article 18. Determining the taxable income

18.1. A tax shall be imposed on a taxpayer's taxable income generated in the tax year.

18.2. Taxable income shall be determined by deducting the expenses specified in this Law from the gross amount of taxable income specified in Articles 8.1.1, 8.1.3, 8.1.4, 8.1.5, 9.1.1, 11.1.1 and 11.1.4

of this Law, and the taxable income for the current year shall be determined by deducting the losses carried forward specified in Article 19 of this Law from the taxable income.

18.3. Taxable income from sale and transfer price of shares, securities and other financial instruments shall be determined by deducting the purchase price and documented charges incurred during the purchase from the sales price.

18.4. Taxable income specified in Article 8.1.2 of this Law shall be determined by deducting the expenses that meet the conditions specified in Article 13.1 of this Law, and the value of the cash and goods granted to the lottery winner from the gross taxable income.

18.5. Taxable income from sale or transfer of intangible assets and movable property specified in Article 10.1.4 of this Law shall be determined by deducting the residual value of the asset from the income from the sale and transfer of the asset.

18.6. The taxable income of the income, shall be determined based on the gross amount of each taxable income type:

18.6.1. income from royalties;

18.6.2. Income from dividends;

18.6.3. income from interest;

18.6.4. Income from the sale of immovable property;

18.6.5. income from paid quiz, gambling, and lottery;

18.6.6. profits transferred from a Permanent Establishment to its parent economic entity in the tax year;

18.6.7. income specified in Articles 11.1.5 and 11.1.6 of this Law;

18.6.8. Income specified in Articles 4.1.6, 4.1.7 and 8.3 of this Law earned by a non-resident taxpayer, except for a Permanent Establishment registered according to the procedures specified in the Article 6.10 of this Law;

18.7. The taxable income from the sale and transfer of rights specified in Article 10.1.2 of this Law shall be determined by deducting the following expenses supported by documentation from the value of the rights:

18.7.1. Fees and charges, supported by documentation, paid to the state organization in obtaining the right;

18.7.2. Payments, supported by documentation, settled for the purchase or transfer from others under a transaction agreement.

18.8. The methodology set forth in Article 30.6 of this Law shall be followed in valuation of a right to possess and use land, mineral exploration, and mining licenses, and assessing the taxes.

18.9. In the event of the liquidation of an economic entity of which a taxpayer is a shareholder, dividend taxable income shall be determined by deducting the original purchase price of those shares and assets from the amount of income distributed in proportion to the shares and assets held by the taxpayer.

18.10. In the event of repayment of a loan deducted from the taxable income of a credit risk fund of a savings and credit cooperative and loan risk fund of a bank and non-banking financial institution, the amount of such loan shall be taxed in accordance with this Law.

18.11. Taxable income of an economic entity that conducts insurance activities shall be determined by deducting a reserve fund established in the year as approved by a government body and operating expenses from total income of its insurance operations.

18.12. Taxable income of a Permanent Establishment shall be determined by the same principles as for a resident taxpayer of Mongolia as specified in this Law, and no term or condition apply to reduce taxable income of the Permanent Establishment.

Article 19. Carryforward of losses reported by tax return.

19.1. An excess of deductible expenses that meet the conditions and requirements set forth in this Law over gross taxable income shall be deemed as loss reported by the tax return (hereinafter referred to as "loss").

19.2. The loss to be carried forward validated by the relevant tax office shall be deducted from taxable income within limit of 50 percent of the gross taxable income in the four (4) consecutive tax years following the tax year in which the loss occurred.

19.3. The balance of the carry-forward loss remaining after four (4) tax years of deduction and exceeding the limit specified in Article 19.2 of this Law for the tax year shall not be deducted from taxable income any further.

19.4. Where loss occurred in more than one tax year, it shall be deducted from taxable income in the order in which the loss occurred.

19.5. Losses of a Permanent Establishment of a Mongolian economic entity in a foreign jurisdiction cannot be deducted from a taxable income of the Mongolian economic entity.

19.6. The taxpayer holding a mineral, radioactive mineral, oil exploration and mining license shall comply with the provisions of Articles 26.9, 26.10, 26.11, 26.12 and 26.13 of this Law when carrying forward the incurred losses under Article 13.5 of this Law.

19.7. In case of expiration and revocation of minerals, radioactive minerals and oil exploration and mining licenses, and full return of licensed areas the Article 19.6 of this Law shall not apply to calculating the carry-forward losses.

19.8. In case of restructuring of an economic entity by merge or integration or separation according to the Civil Code, the Company Law and the Partnership Law, the residual amount of the loss shall not be deductible from gross taxable income any further.

19.9. Losses specified in Article 19.1 of this Law shall not include losses reported in previous years' tax returns and not validated by tax administration before January 1, 2020.

19.10. Losses reported by the tax return of an economic entity invested in a free zone shall be deducted from taxable income for 4 consecutive tax years following the year in which the construction work is completed, and the target production and operations begin.

19.11. The Head of the state administrative body in charge of tax matters shall approve the procedures for carrying-forward and approval of losses reported by the tax return.

CHAPTER FIVE TAX RATES AND AMOUNT

Article 20. Tax rates and amount

20.1. If the annual taxable income determined in accordance with the Articles 18.2, 18.3, 18.4, 18.5 of this law is 0-MNT6.0 billion, it shall be taxed at a rate of 10 percent. If the annual taxable income exceeds MNT6.0 billion, it shall be taxed MNT600.0 million plus 25 percent of income exceeding MNT6.0 billion.

20.2. The following taxable income of a taxpayer shall be taxed at the following rates:

20.2.1 the income specified in Articles 18.6.1, 18.6.2, 18.6.3, 18.6.7 and 18.7 of this Law- at 10 percent;

20.2.2. the taxable income specified in Article 18.6.4 of this Law- at 2 percent;

20.2.3. the income specified in 18.6.5 of this Law-at 40 percent;

20.2.4 the income specified in Articles 18.6.6 and 18.6.8 of this Law- at 20 percent;

20.2.5. the interest income of a resident taxpayer not holding a minerals, radio-active minerals or oil exploration or mining license /including persons specified in Articles 4.1.12 and 30.1 of this Law/ who purchased debt instruments and unit rights publicly traded on foreign or domestic primary or secondary securities market - at 5 percent;

20.2.6. the interest income of commercial banks of Mongolia on loans and borrowings from foreign and domestic sources-at 5 percent

20.2.7. Notwithstanding Article 20.1 of this Law, the taxable income specified in Articles 18.2, 18.3, 18.4, and 18.5 of this Law of up to MNT 300 million per year earned by a taxpayer conducting a business in industries other than those specified in Articles 22.1.1, 22.1.2, and 22.1.3 of this Law -at 1 percent.

20.2.8. the proceeds from the sale of intellectual property rights- at 5 percent.

[/This article was added by the law adopted on January 23, 2020. /](#)

20.3. In the case of a stabilization certificate holder, tax shall be imposed at the stabilized rate during the validity period of the stabilization certificate.

CHAPTER SIX TAX CREDITS AND EXEMPTION

Article 21. Tax exemption

21.1. The following income of a taxpayer shall be exempt from tax:

21.1.1. payment, interest, and penalty on bonds and notes issued by the Government, or the Development Bank of Mongolia;

21.1.2. dividends specified in Article 7.1.1 of the Future Heritage Fund;

21.1.3. income allocated from budget to the Future Heritage Fund, and income earned from the Fund's investment;

21.1.4. income specified in Articles 18.6.2 and 20.1 of this Law derived from the sale of a taxpayer's share of the product under a production sharing agreement in the oil sector;

21.1.5. income of a Credit Guarantee Entity from its main operations specified in the law;

21.1.6. premium income of a Deposit Insurance Fund;

21.1.7. dividends allocated to the Government from a state-owned enterprise;

21.1.8. income of a taxpayer who has earned the income specified in the Article 21.1.4 of this Law from the sale of their own share and transferred abroad;

21.1.9. Operating income of the organization specified in 12.1 of the Law on Education and 15.1 of the Law on Health.

21.1.10. income of a non-profit legal entity earned from activities related to implementation of the goals set forth in the charter.

21.1.11. Income from service fees collected from members specified in the charter of the Apartment Owners 'Association and money contributed to the fund specified in Article 6.1.7 of the Law on Legal Status of Apartment Owners' Associations and shared ownership of Public Apartment Buildings.

21.1.12. income of a cooperative earned from the difference between the brokerage prices for the sale of its members' products;

21.1.13. income from the mediation of intellectual property rights;

[/This article was added by the law adopted on January 23, 2020. /](#)

21.1.14. Interest income from loans secured by intellectual property rights.

[/This article was added by the law adopted on January 23, 2020. /](#)

Article 22. Tax Credit

22.1. Taxes imposed under Article 20.1 by a taxpayer, who reported taxable income of up to MNT1.5 billion by the annual tax return in income specified in Articles 18.2, 18.3, 18.4, and 18.5 of this Law, operating in sectors other than those listed below and established under the law of Mongolia except for taxpayers specified in Article 20.2.7 of this Law shall be subject to a 90 percent credit:

22.1.2. producing alcohol drinks, and planting, producing, and importing tobacco;

22.1.3. producing of petroleum products, import of all types of fuel, wholesale and retail trade, exploration, production, and sale of oil;

22.2. The tax credit specified in Article 22.1 of this Law shall be exercised through assessment by the taxpayer's annual tax return and refund from the tax paid within the period specified in this Law and shall be refunded under Article 28 of this Law. The refunds shall be made within 30 working days after the deadline for submission of the annual tax return, regardless of the deadlines specified in Articles 28.4.2 and 28.4.3 of this Law.

22.3. In determining whether a taxpayer is covered by Articles 20.2.7 and 22.1 of this Law, the amount of taxable income shall be calculated as the sum of the taxable income of the taxpayer and the related party who had transactions with the taxpayer in the tax year.

22.4. An economic entity reporting and paying a tax in accordance with the Articles 20.2.7 and 22.1 of this Law shall not be subject to the tax credit specified in the Article 22.5 of this Law.

22.5. Tax credit shall apply to the following:

22.5.1. Taxable income specified in Article 7.4.1 of this Law earned by a taxpayer who runs a permanent business in an aimag or soum located more than 500 km away from the capital city of Ulaanbaatar, is registered as a legal entity in the local jurisdiction, affiliates with the local tax office, and creates jobs (guaranteed by social insurance premiums) generated from business activities conducted in the territory of the aimag or soum shall be subject to tax credit of 50 percent for taxpayers in remote aimags and soums more than 500 km away, and 90 percent for taxpayers in remote aimags and soums more than 1,000 km away respectively.

22.5.2. The relevant tax imposed on income of an economic entity that employs more than 25 employees, from which 2/3(two third) are persons with disabilities.

22.5.3. Tax imposed on income from sale of environmentally friendly machinery and equipment that saves the natural resources, and reduce the environmental pollution and waste;

22.5.4. Tax on income from sale of domestically produced innovative products, works and services of a start-up company specified in the Law on Innovation, within 3 years from the date of its state registration.

22.5.5. Tax on 50 percent of income of an economic entity, who constructed sport facilities, sports hall, area, and infrastructure that meet the standards specified in the Article 26.2 of the Law on Fitness and Sports, generated from operation of these facilities within 5 years from date of their commissioning.

22.5.6. Tax on income of an economic entity employing a person with 50 percent or more disability proportionate to the number of persons with disabilities in the total number of employees.

22.5.7. Tax on income of an economic entity that invested USD 500.0 thousand or more in infrastructure such as energy, heat sources, networks, clean water supply, sewerage, roads, railways,

airports, and main communication networks for the free zone generated from the free zone limited by 50 percent of the investment made.

22.5.8. Tax on income of an economic entity that invested USD300.0 thousand or more in building a warehouse, freight loading and unloading facility, hotel, tourist complex, and factory producing products for import substitution or export in a free zone generated from its activities in the free zone, limited by 50 percent of the investment made.

22.5.9. Tax on income of an individual, or an economic entity, or an organization that financed measures to improve the quality of natural water and rehabilitate rivers and streams to increase water resources in certain territories and ensure a sustainable water supply;

22.5.10. Income of an economic entity that has produced or cultivated the following products generated from the products shall be subject to 50 percent tax credit:

22.5.10.a. crops, potatoes, and vegetables;

22.5.10.б. milk;

22.5.10.в. fruits and berries.

22.5.10.г. fodder and fodder plants;

22.5.10.д. meat and meat products produced in intensive poultry farming.

22.6. A list of equipment, tools, products, works, and services specified in the Articles 22.5.3 and 22.5.4 of this Law shall be approved by the Cabinet.

22.7. The tax credit for the reporting period shall be imposed on the type of income and shall not exceed the amount of tax paid in the period specified in this Law.

22.8. Article 22.5.1 of this Law shall not apply to the following sectors:

22.8.1. Exploration and exploitation of minerals, radioactive minerals and oil, and activities in nuclear energy field;

22.8.2. Production, sale and import of alcoholic beverages;

22.8.3. Planting tobacco, production, sale, and import of tobacco;

22.8.4. Import, or sale of petroleum products;

22.8.5. Telecommunication services;

22.8.6. Construction of energy sources and networks, generation, sale, and distribution of energy;

22.8.7. Civil aviation business;

22.8.8. Construction and repair of roads and road facilities.

Article 23. Foreign Tax Credit.

23.1. Taxes paid by a resident taxpayer abroad shall be deducted from the tax payable by the taxpayer for the tax year.

23.2. Taxes paid abroad shall not be deductible from taxes payable in the following cases:

23.2.1. the tax is refundable although assessed and paid abroad;

23.2.2. the interest, fines and penalties imposed on tax assessed and paid abroad;

23.2.3. tax imposed and paid on income not subject to tax under the tax legislation of Mongolia.

23.3. The deduction allowed by the Article 23.1 of this Law shall not exceed the lesser of the followings:

23.3.1. the amount of Mongolian tax payable by the resident taxpayer for the year; and

23.3.2. the Mongolian tax attributable to the income earned in the foreign country computed in accordance with Mongolian tax laws.

23.4. The amount specified in the Article 23.3 of this Law shall be calculated separately for each foreign country to which a resident taxpayer paid income tax in a given tax year.

23.5. Taxes paid by a resident taxpayer in a foreign country more than the amount of tax payable by the taxpayer in Mongolia shall not be refunded and shall not be offset further.

23.6. The amount of tax to be deducted under Article 23.1 of this Law shall be verified based on a tax return filed to a foreign authority, an official letter from the authority confirming the tax assessment and payment, and evidence and reference from the authority.

23.7. The amount of tax to be deducted under Article 23 of this Law shall be approved by the respective tax office.

23.8. The Mongolian state administrative body in charge of tax matters shall have the legal capacity to exchange information with foreign countries specified in Article 23.1 of this Law and the list of these countries shall be announced by the Mongolian state administrative body in charge of tax matters in the last quarter of each year and any changes shall be updated within 10 working days.

23.9. An economic entity registered with the tax administration under Article 29.1 of this Law shall not deduct the tax assessed abroad from taxes payable under Article 23 of this Law.

23.10. The head of the state administrative body in charge of tax matters shall approve the procedures for submitting a request for deduction of taxes assessed and paid abroad from taxes payable, approving templates and forms, and verification.

CHAPTER SEVEN WITHHOLDING, PAYMENT, REPORTING AND REFUND OF TAX

Article 24. Tax Withholding

24.1. A withholder shall impose and withhold a tax on a resident taxpayer's income specified in the Articles 18.6.1-18.6.5, 18.6.7, and 18.6.8 of this Law.

24.2. Income tax determined in accordance with Article 18.6.6 of this Law shall be imposed and withheld by the Permanent Establishment.

24.3. If a taxpayer specified in Article 5.5.1 of this Law transfers income related to the activities of its Permanent Establishment to a non-resident, the Permanent Establishment shall impose and withhold the relevant tax.

24.4. If it is not possible to determine the withholder in accordance with this Law, the person who earned taxable income shall assess and impose the tax themselves.

24.5. The tax withheld shall be transferred to the budget within 10 working days.

Article 25. Self-Assessment and payment of tax to the budget

25.1. The respective tax department shall deliver the monthly and quarterly tax schedule to the taxpayer in accordance with Articles 20.1 and 20.2.7 of this Law based on the schedule approved by the state central administrative body in charge of budget and finance.

25.2. According to the predetermined schedule specified in 25.1 of this Law, the monthly tax shall be paid by the 25th of each month, the tax balance by the end of the quarter shall be paid by the 20th of the first month of the following quarter, and the tax balance by the end of the year shall be paid to the budget by February 10th of the following year.

25.3 The state shall have the right to mobilize the profits and dividends fully or partially on its property to the budget and the amount shall be established by the Budget Law for that year.

Article 26. Tax Reporting

26.1. A taxpayer whose taxable income for the previous tax year was MNT 6 billion or more shall file the quarterly tax return for the current tax year no later than the 20th of the first month of the following quarter and the annual tax return within February 10 of the following year to the tax administration.

26.2. A taxpayer whose taxable income for the previous tax year was less than MNT6 billion and not registered with the tax administration per Article 29.1 of this Law shall file the first semi-annual tax return for the current tax year no later than July 20th, and the annual return within February 20th of the following year to the tax administration.

26.3. The annual taxable income specified in the Articles 26.1-26.2 of this Law shall be determined based on the taxpayer's annual taxable income reported in the previous tax year only.

26.4. A taxpayer shall prepare a tax return in the amount accrued from the beginning of the year.

26.5. A taxpayer shall attach a tax return on withholding tax withheld under Article 24 of this Law to the relevant tax return.

26.6. If the withholder who made a payment to a non-resident taxpayer is an individual, the tax return on the tax withheld under Article 24 of this Law shall be attached to the tax return to be filed in accordance with the Personal Income Tax Law.

26.7. A taxpayer established in the reporting year shall file a tax return in accordance with Article 26.2 of this Law.

26.8. A taxpayer who conducted no business activity shall report to the relevant tax authority once a year no later than February 10th of the year following the tax year.

26.9. An economic entity engaged in mineral, radioactive minerals, oil exploration and mining activities shall prepare and file tax returns separately for each license and settle taxes for the tax year in accordance with this Law.

26.10. The tax returns specified in 26.9 of this Law may be consolidated if the following conditions are met simultaneously:

26.10.1. areas of licenses hold by a taxpayer border on each other.

26.10.2. the products to be mined are the same for the mining licenses for minerals and radio-active minerals;

26.11. The tax returns for an area with minerals, radioactive minerals, and oil exploration and mining licenses shall not be consolidated in accordance with Article 26.10 of this Law.

26.12. A request to consolidate tax returns for the following tax year in accordance with Article 26.10 of this Law shall be submitted to the state administrative body in charge of tax matters before September 1 of the tax year.

26.13. The state administrative body in charge of tax matters shall review the request specified in 26.12 of this Law within 30 days and notify whether the request is approved.

26.14. A taxpayer shall report the tax assessed and imposed in accordance with Article 24.4 of this Law within the period specified in this law.

Article 27. Country-by-Country Transfer Pricing Report

27.1. The following terms used in this Article shall have the following meaning:

27.1.1. The term "Group" means as specified in Article 6.1.8 of the General Taxation Law;

27.1.2. The term "Constituent Entity" refers to an entity meeting one of the followings:

27.1.2.a. any separate business unit of an MNE Group that is included in the Consolidated Financial Statements of the MNE Group for financial reporting purposes or would be so included if equity interests in such business unit of an MNE Group were traded on a public securities exchange.

27.1.2.b. any such business unit that is excluded from the MNE Group's Consolidated Financial Statements solely on size or materiality grounds;

27.1.2.c. a permanent establishment of the economic entity specified in Articles 27.1.2.a and 27.1.2.b that prepares a separate financial statement for such permanent establishment for financial and tax reporting, or internal management, organization, and control purposes.

27.1.3. The term “Consolidated Financial Statements” means the financial statements of an MNE Group in which the assets, liabilities, income, expenses, and cash flows of the Constituent Entities are presented as those of a single economic entity according to the accounting standards;

27.1.4. The term “International Tax Agreement” shall mean the Multilateral Convention for Mutual Administrative Assistance in tax matters, any bilateral or multilateral Tax Convention, or any Tax Information Exchange Agreement to which Mongolia is a party, and that by its terms provides legal authority for the exchange of tax information between jurisdictions, including automatic exchange of such information.

27.1.5. The term “Systemic Failure” refers to the situation where a jurisdiction has suspended to fulfill the obligations stated in the Agreement established between competent authorities for reasons other than those that are in accordance with the terms of that Agreement or otherwise persistently failed to automatically provide to Mongolia country-by-country reports in its possession of MNE Groups that have Constituent Entities in Mongolia.

27.1.6. The term “Excluded MNE Group” means a MNE Group having total consolidated group revenue of less than MNT1.7 trillion as reflected in its Consolidated Financial Statements.

27.1.7. The term “Reporting Entity” means the Constituent Entity that is required to file a country-by-report on behalf of the MNE Group, or the Parent Entity, the Appointed Reporting Entity, or any entity described in Article 27.2.2 of this Law.

27.1.8. The term “Appointed Reporting Entity” means one Constituent Entity of the MNE Group that has been appointed by such MNE Group to file the country-by-country report on behalf of the MNE Group, when the condition set out in Article 27.2.2 applies.

27.1.9. The term “MNE Group” means any Group that:

, and (ii) is not an Excluded MNE Group

27.1.9.a. includes two or more enterprises the tax residence for which is in different jurisdictions, or includes an enterprise that is resident for tax purposes in one jurisdiction and is subject to tax with respect to the business carried out through a permanent establishment in another jurisdiction; and

27.1.9.6. is not an Excluded MNE Group specified in Article 27.1.6 of this Law.

27.1.10. The term “MNE Group Fiscal Year” means an annual accounting period with respect to which the Ultimate Parent Entity of the MNE Group prepares its financial statements;

27.1.11. The term “MNE Group Reporting Fiscal Year” means that Fiscal Year the financial and operational results of which are reflected in the country-by-country report.

27.1.12. The term “MNE Group Parent Entity” means a Constituent Entity of an MNE Group that meets the following criteria:

27.1.12.a. it owns directly or indirectly a sufficient interest in one or more other Constituent Entities of such MNE Group such that it is required to prepare Consolidated Financial Statements under accounting principles generally applied in its jurisdiction of tax residence, or would be so required if its equity interests were traded on a public securities exchange in its jurisdiction of tax residence; and

27.1.12.6. there is no other Constituent Entity of such MNE Group that owns directly or indirectly an interest described in Article 27.1.12.a above in the first mentioned Constituent Entity.

27.1.13. The term “Qualifying Competent Authority Agreement” means an agreement:

27.1.13.a. that is between authorized representatives of those jurisdictions that are parties to an International Agreement and;

27.1.13.b. that requires the automatic exchange of country-by-country reports between the party jurisdictions.

27.2. The following taxpayers shall file the country-by-country report no later than 12 months after the last day of the Reporting Fiscal Year of the MNE Group:

27.2.1. the Parent Entity of the MNE Group that is a resident in Mongolia for tax purposes; or,

27.2.2. a Constituent Entity which is not the Parent Entity of the MNE Group that is a resident in Mongolia for tax purposes if one of the following conditions is met:

27.2.2.a. The Parent Entity of the MNE group is not obligated to file a country-by-country report under the laws of its jurisdiction of tax residence.

27.2.2.b. the jurisdiction in which the Parent Entity of a MNE Group is resident for tax purposes has a current International Tax Agreement to which Mongolia is a party but does not have a Qualifying Competent Authority Agreement concluded by the time specified in 27.2 of this Law.

27.2.2.c. there has been a Systemic Failure of the jurisdiction of tax residence of the Parent Entity that has been notified by the Tax Administration of the jurisdiction to the Constituent Entity resident for tax purposes in Mongolia.

27.2.3. As stated in the Article 27.2.2 of this Law if there are two or more Constituent Entities of a MNE group to prepare country-by-country report, the Parent Entity of the MNE Group may designate one of such Constituent Entities to file the country-by-country report, in which case the appointed Constituent Entity shall be a Reporting Entity.

27.3. The Constituent Entity designated in accordance with Article 27.2.3 of this Law, shall notify about that register with the relevant tax department within the filing of the annual tax return.

27.4. Notwithstanding Article 27.2.2 of this Law when the following conditions apply simultaneously, a Constituent Entity of a Group resident for tax purposes shall not be required to file a country-by-country report with the Tax Administration.

27.4.1. one of the conditions specified in 27.2.2.a, 27.2.2.b and 27.2.2.c of this Law is met;

27.4.2. The MNE Group filed the country-by-country report through an appointed Reporting Entity;

27.4.3. The appointed Reporting Entity filed the country-by-country report to the tax administration of the jurisdiction of its residence for tax purposes within the period specified in 27.2 of this Law.

27.4.4. The law of the jurisdiction of the taxpayer's residence for tax purposes requires filing a country-by-country report in accordance with the requirements set forth in Article 27.5 of this Law.

27.4.5. the jurisdiction of residence for tax purposes of the Reporting Entity appointed within the period specified in 27.2 of this Law has entered into a Qualifying Competent Authority Agreement to which Mongolia is a party;

27.4.6. the jurisdiction of residence for tax purposes of the Appointed Reporting Entity has not reported any Systemic Failure with Mongolian Tax administration;

27.4.7. A member of a MNE Group has notified the that it is an Appointed Reporting Entity to the jurisdiction of its residence for tax purposes in accordance with the requirements of the law of that jurisdiction and the notice has been delivered to the relevant tax department in accordance with 27.7.2 of this Law.

27.5. The country-by-country transfer pricing report shall contain the following information:

27.5.1. Aggregate information relating to the amount of revenue, profit (loss) before income tax, income tax paid, income tax accrued, stated capital, accumulated earnings, number of employees, and movable and immovable assets other than cash or cash equivalents about each jurisdiction in which the MNE Group operates;

27.5.2. An identification of each Constituent Entity of the MNE Group setting out the jurisdiction of tax residence of such Constituent Entity, and where different from such jurisdiction of tax residence, the jurisdiction under the laws of which such Constituent Entity is organized, and the nature of the main business activity or activities of such Constituent Entity.

27.6. The form and procedure for filing a country-by-country report shall be approved by the head of the state administrative body in charge of tax matters.

27.7. The taxpayer shall have the following obligations:

27.7.1. Any Constituent Entity of an MNE Group that is resident for tax purposes in Mongolia shall notify whether it is the Parent Entity or the Appointed Reporting Entity, no later than the filing due date of the annual tax return.

27.7.2. Where a Constituent Entity of an MNE Group that is resident for tax purposes in Mongolia is not the Parent Entity nor the Appointed Reporting Entity, it shall notify the Tax Administration of the identity and tax residence of the Reporting Entity, no later than no later than the filing due date of the annual tax return.

27.8. The Tax Administration shall use the country-by-country report for purposes of tax risk assessment and statistical analysis. Transfer pricing adjustments by the Tax Administration will not be based on the country-by-country Report.

27.9. The Tax Administration shall preserve the confidentiality of the information contained in the country-by-country report under the provisions of the international agreement and standards to which Mongolia is a party.

27.10. Article 27.2.2 of this Law shall be complied with from the date when the Mongolian tax authority can officially start automatic exchange of information with foreign tax authorities.

Article 28. Tax Refund

28.1. The tax administration shall apply the following procedures to review and finalize the calculation of tax overpayments and underpayments reported by tax returns filed by taxpayers and withholders under Articles 26.1 and 26.2 of this Law:

28.1.1. The amount of tax to be refunded to a taxpayer in a tax year shall be limited as stated in Article 22.7 of this Law.

28.1.2. A taxpayer shall be able to choose from the credits specified in Article 22 of this Law within the limits set in Article 22.7 of this Law.

28.1.3. A taxpayer shall not exercise the tax credit specified in this Law partially.

28.1.4. The tax credit specified in Article 22 of this Law cannot be exercised in the following tax year.

28.2. If the amount of tax payable for a tax year exceeds the amount of the tax paid as calculated under the procedures specified in Article 28.1 of this Law, the relevant tax department shall notify the taxpayer and make a final calculation.

28.3. If the tax paid by a taxpayer in a tax year exceeds the amount of the tax payable as calculated under the procedures specified in Article 28.1 of this Law, the excess amount shall be resolved in accordance with Article 49.1 of the General Taxation Law.

28.4. The excess amount specified in 28.3 of this Law or the taxpayer's overpaid tax shall be refunded according to the following procedures:

28.4.1. overpaid tax shall be refunded to the taxpayer through the treasury account.

28.4.2. The tax administration shall review and determine the amount of refundable tax within 20 working days after the filing due dates specified in Articles 26.1 and 26.2 of this Law and deliver it to the treasury unit.

28.4.3. The refund specified in 28.4.2 of this Law shall be made within the second quarter of the following tax year.

28.5. The procedure governing the issues related to refund, review, and accounting of tax overpaid by the taxpayer specified in 28.4 of this Law shall be approved by the member of the Cabinet in charge of fiscal matters.

28.6. The tax subject to refund shall be a component of the state budget and shall not exceed 30 percent of the type of tax to be paid to the state budget in the tax year.

CHAPTER EIGHT SPECIAL TAX RELATIONS

Article 29. Simplified tax regime

29.1. If the total sales revenue of a taxpayer reported by the previous year's tax return is less than MNT50.0 million, and the taxpayer submitted a request to the tax administration no later than the end of the third quarter of the tax year which was registered by the tax administration, the taxable income of the taxpayer can be determined based on its total operating income starting from the following tax year.

29.2. A taxpayer using the simplified tax regime shall be connected to the integrated tax registration database.

29.3. The following taxpayer shall not file the request specified in Article 29.1 of this law:

29.3.1. A taxpayer who has qualified the conditions and requirements of the Value-Added Tax Law and been registered as a value-added taxpayer,

29.3.2. A taxpayer engaged in the following activities:

29.3.2.a. Exploration, mining, use, transportation and sale of minerals and radioactive minerals.

29.3.2.b. production and import of alcoholic beverages;

29.3.2.c. Plant tobacco plants, production and import of tobacco;

29.3.2.d. Producing petroleum products, import of all types of fuels, wholesale and retail trading, exploration, extraction, and sale of oil.

29.4. The procedure for registration, resolution and deregistration of requests specified in Article 29.1 of this Law shall be approved by the head of the state administrative body in charge of tax matters.

29.5. Losses incurred by a taxpayer registered with the tax administration in accordance with Article 29.1 of this Law reported by tax returns of previous years shall not be carried forward.

29.6. A taxpayer who filed a request and is registered with the tax administration in accordance with Article 29.1 of this Law shall exit the simplified tax regime from the date of becoming a value-added tax withholder under the conditions and requirements specified in the Law on Value Added Tax.

29.7. A taxpayer shall exit the simplified tax regime from the date of commencing the activities specified in 29.3.2 of this Law.

29.8. A taxpayer registered with the tax administration in accordance with this Article shall not exit the simplified tax regime in the middle of the tax year, except for the cases specified in Articles 29.6 and 29.7 of this Law.

29.9. Taxable income determined under Article 29.1 of this Law shall be taxed at 1 percent.

29.10. An economic entity that pays and reports taxes in accordance with Article 29.1 of this Law shall not exercise the tax exemptions specified in Article 21 and the tax credits specified in Article 22 of this Law, and taxes paid abroad in accordance with Article 23 of this Law shall not be deductible.

29.11. Based on the schedule approved by the state central administrative body in charge of budget and finance, the respective tax department shall submit to the taxpayer the monthly tax schedule to be imposed and paid under Article 29.9 of this Law.

29.12. According to the predetermined schedule specified in 29.11 of this Law, the quarterly tax shall be paid to the budget by the 20th of the first month of the following quarter and the annual tax balance shall be paid to the budget by February of the following year.

29.13. A taxpayer who has registered its request with the tax administration in accordance with Article 29.1 of this Law shall file the year-end tax return to the relevant tax department by February 10th of the following year.

Article 30. Tax relations related to sale and transfer of rights by changing the shares and stakes of the ultimate owner.

30.1. The term "Ultimate owner" shall be understood as specified in 6.1.48 of the General Tax Law.

30.2. Income generated from full or partial sale or transfer of land possession and use rights, minerals, radioactive minerals, oil exploration and mining licenses granted in accordance with the laws of Mongolia through the sale and transfer of shares, stakes, and voting rights held by the Ultimate Owner, shall be considered as the income of the economic entity holding a right specified in 10.1.2 of this Law.

30.3. The base for taxable income from the sale and transfer of rights shall be determined by deducting the expenses supported by the following documents from the valuation of the rights and licenses in accordance with the procedure set forth in Article 30.6 of this Law:

30.3.1. Fees and charges supported by documentation paid to the state body in connection with obtaining of the right from a government agency.

30.3.2. Fees and charges supported by documentation paid under the transaction agreement in connection with the acquisition of the right from others.

30.4. The final taxable income from the base of the taxable income determined in accordance with article 30.3 of this law shall be determined in proportion to the value of shares, stakes and voting rights sold or transferred by the ultimate owner.

30.5. The value of the right to use or possess a land shall be determined based on the price requirements specified in Article 38.6 of the Land Law.

30.6. The regulation on imposing tax on income specified in Article 30.4 of this Law, the methods for valuation of a right to possess or use of land, and exploration and mining license for minerals, radioactive minerals and oil, and the methodology for assessing the tax shall be approved by the Cabinet member in charge of finance and budget matters.

30.7. If the ultimate owner specified in Article 30.1 of this Law is a resident taxpayer of Mongolia, the relevant tax shall be imposed on the highest amount of the proceeds from the sale or transfer of the shareholder's shares, stakes, and voting rights; and the income from sale or transfer of rights calculated under Articles 30.3, 30.4, 30.5 and 30.6 of this Law. Low-value income shall be exempt from tax.

30.8. Changing the structure of shares, stakes, and voting rights within a chain of related entities, which extends from the ultimate owner to the right holder without changing the total amount of shares, stakes and voting rights held by the ultimate owner through delegation to a right holder in the form of

transfer, merger, acquisition, separation, and establishment of a new legal entity, shall not be considered as sale or transfer of rights.

30.9. If the shares of a right holder, the ultimate owner or a legal entity that belongs to a chain of related entities, which extends from the ultimate owner to the right holder are traded publicly on the foreign and domestic stock exchanges, the amount of income from sale or transfer of shares attributable to up to 20 percent of the publicly traded shares, equity, or voting rights of the right holder or ultimate owner for 12 consecutive months shall be exempt from tax.

30.10. The taxable income determined in accordance with the Article 30.4 of this law shall be taxed at 10%.

30.11. The tax levied in accordance with Article 30.10 of this Law shall be imposed by the right holder and paid to the budget within 30 days.

30.12. Notwithstanding the provisions of Article 30.11 of this Law, if the shares of a right holder, the ultimate owner or a legal entity that belongs to a chain of related entities, which extends from the ultimate owner to the right holder are traded publicly on the foreign and domestic stock exchanges, the right holder shall pay the tax imposed during first six months no later than July 20th and make annual tax settlements no later than February 10th of the following tax year.

30.13. A taxpayer shall attach the tax return for the tax imposed under Articles 30.11 and 30.12 of this Law to the tax return to be filed under Articles 26.1 and 26.2 of this Law.

Article 31. Tax relations of foreign companies with effective place of management in Mongolia

31.1. "A foreign economic entity, whose effective place of management is located in Mongolia" refers to a related resident taxpayer or an individual permanently residing in Mongolia that owns 50 percent or more of the total number of shares or voting rights of the foreign economic entity directly or through one or more related legal entities of a chain during any period of the tax year.

31.2. A foreign economic entity, whose effective place of management is in Mongolia shall be considered as resident taxpayer of Mongolia.

31.3. The following taxable income of a foreign economic entity, whose effective place of management is in Mongolia, operating in a foreign country or its territory belonging to the offshore zone as defined in the Law on Regulation of Public and Personal Interest in the Public Sector and Preventing from Conflict of Interest, shall be determined as follows:

31.3.1. the income specified in Articles 9.1.2, 9.1.3, 9.1.4 and 10.1.1 of this Law by its total amount;

31.3.2. the income specified in Articles 10.1.3 according to Article 18.3 of this Law;

31.3.3. the income specified in Articles 10.1.4 according to Article 18.5 of this Law.

31.4. Article 31 of this law shall not apply to a foreign economic entity, whose effective place of management is in Mongolia, established for the purpose of open trading shares and unit rights in the primary market of foreign securities.

31.5. In case a foreign economic entity, whose effective place of management is in Mongolia is the ultimate owner specified in Article 30.1 of this Law, and the right holder assessed, and reported tax based on the transfer of shares, equity or voting rights as specified in Article 30 of this Law, the tax abroad shall be reduced by the amount of the tax assessed.

31.6. The taxable income determined in accordance with Article 31.3 of this Law shall be taxed the rate specified in Article 20 of this Law.

31.7. Tax imposed abroad of a foreign economic entity, whose effective place of management is in Mongolia shall be deducted from the tax assessed under Article 30.1 of this Law payable in the given tax year. Such deductions shall be made in accordance with Article 23 of this Law.

31.8. The tax imposed according to Article 31.3 of this Law and the tax return filed to the foreign country competent authority shall be reported by the resident taxpayer or individual specified in Article 31.1 of this Law no later than February 20th of the following year and the account balance shall be calculated.

31.9. Taxes imposed in accordance with Article 31.3 of this Law shall be paid to the budget by February 10 of the following tax year based on the final calculation specified in Article 31.8.

31.10. The head of the state administrative body in charge of tax matters shall approve the procedure for determining and reporting the taxable income of a foreign economic entity, whose effective place of management is in Mongolia and the tax return form.

Article 32. Entry into force

32.1. This law shall be effective January 1, 2020.

**SPEAKER OF THE PARLIAMENT OF
MONGOLIA**

G. ZANDANSHATAR