

The logo for Invest Mongolia features a circular arrangement of colorful, semi-transparent rectangular blocks in shades of blue, purple, red, orange, and pink, creating a sunburst or flower-like effect. The text "INVEST MONGOLIA" is centered in white, uppercase letters.

INVEST MONGOLIA

# **TAX ENVIRONMENT & SOCIAL INSURANCE**

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A Clear Guide for Foreigners

# FUNDAMENTAL PRINCIPLES OF THE REVISED TAX LAWS

## Economic development

Enhance the business environment, attract investment and exports, support the development of capital markets, reduce the shadow economy, improve the quality and reliability of financial reporting and auditing, and foster sustainable growth.

## Ensuring tax collection

Secure complete collection of all taxes imposed by law, strengthen the authority and accountability of tax administration, and enhance institutional capacity.

## Taxpayer support

Facilitate taxpayer registration, reporting, and compliance; reduce compliance costs; improve tax services; and make procedures more transparent and accessible.

## KEY AMENDMENTS TO THE TAX LAWS

Provide tax incentives in remote regions

Extend repayment periods for tax liabilities

Shorten the statute of limitations for tax disputes

Expand deductible expenses under official taxation

Allow correction of tax reports

## CORPORATE INCOME TAX

Resident taxpayers are taxed on their worldwide income.

Non-resident taxpayers are taxed only on Mongolian-sourced income, including that from a permanent establishment or other income subject to withholding tax.

## TAXABLE INCOME

Business Income: From operations, sale of rights, shares, or securities.

Property Income: Such as rent, royalties, dividends, and interest.

Capital Gains: From the sale of movable or immovable property.

Other Income: Any other income deemed taxable by law.

## TAX RATES

**Standard Rate:** 10% on annual profits up to MNT 6 billion. Profits exceeding this threshold is taxed at 25%.

**Small Business Incentive:** 1% for companies with annual revenue under MNT 300 million (excludes mining, alcohol, tobacco).

**Loss Relief:** Losses can be carried forward for up to 4 years, offsetting up to 50% of annual profit.

**Reporting:** Frequency (quarterly, semi-annual, or annual) is based on prior year's profit.

### Deductible and non-deductible expenses table

| Deductible expenses                                                                                                                                                                        | Nondeductible expenses                                                  |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------|
| Income-generating activity<br>(it is required to be properly documented and registered in an electronic VAT system)<br>Subject to some limits or conditions applicable to certain expenses | Any expense not directly relevant to the taxpayer's business activities |
|                                                                                                                                                                                            | Finance lease payments                                                  |
|                                                                                                                                                                                            | Fines and penalties                                                     |
|                                                                                                                                                                                            | Expenses incurred for earning exempt income                             |
|                                                                                                                                                                                            | Expenses not supported by primary documents                             |
|                                                                                                                                                                                            | Payments from which required taxes are not withheld                     |

### THIN CAPITALIZATION RULE

Mongolian law restricts interest deductibility on loans from related parties under three main rules:

- 1** EBITDA Test: Deductible interest on related-party loans is capped at 30% of EBITDA.
- 2** Debt-to-Equity Test: The debt from shareholders cannot exceed a 3:1 ratio of the invested capital. Interest on the excess debt is reclassified as a non-deductible dividend.
- 3** Shareholder Loan Rule: Interest on loans from resident individual shareholders is completely non-deductible.

These rules are designed to prevent profit-shifting through excessive interest payments and to encourage the capitalization of companies with equity rather than debt.

### DEADLINE FOR TAX REPORTING

Depending on the taxable income of a prior year, the CIT reporting frequency is determined as follows:

- Taxpayers with a taxable profit of more than MNT 6 billion report on a quarterly basis;
- Taxpayers with a taxable profit of less than MNT 6 billion report twice a year.
- All taxpayers report annually regardless of their taxable income.

### CIT reporting deadline

| Reports     | Payment                                             |
|-------------|-----------------------------------------------------|
| Quarterly   | 20th of the month following the end of each quarter |
| Semi-annual | 20th July                                           |
| Annual      | 10th February                                       |

## WITHHOLDING TAX ON PAYMENTS TO NON-RESIDENTS

A 20% withholding tax applies to service income earned in Mongolia by non-resident taxpayers.

### Withholding Agent Responsibility

The Mongolian entity making the payment is legally responsible for withholding, reporting, and remitting this tax to the authorities.

### Reduction under Tax Treaties

The standard 20% rate may be reduced or eliminated under an applicable double tax treaty if the following conditions are met:

- **Documentation:** A valid Tax Residency Certificate and relevant supporting documents for the transaction are provided.
- **No Permanent Establishment (PE):** The services do not create a PE for the non-resident in Mongolia.
- **Beneficial Ownership:** The non-resident recipient is the beneficial owner of the income (this condition is particularly critical for passive income like dividends and interest).

## VALUE ADDED TAX

Mongolia employs a standard input-output VAT model. Registered businesses charge VAT on their sales (output tax) and deduct the VAT they have paid on their business purchases (input tax). The net amount—the difference between output tax and input tax—is remitted to the tax authority.

**VAT Payable:** If output VAT exceeds input VAT, the company pays the difference.

**VAT Credit:** If input VAT exceeds output VAT, the excess is generally eligible for a refund or can be carried forward to offset future tax liabilities.

### TAXPAYER

A legal entity must register for VAT if its revenue from taxable supplies in Mongolia reaches MNT 50 million or more over any 12 consecutive months. Taxable supplies include:

- Sales of goods, work, or services within Mongolia.
- Import of goods, work, or services.

### Registration Types:

**Mandatory Registration:** Triggered once taxable turnover reaches MNT 50 million.

**Voluntary Registration:** Available to entities whose taxable turnover reaches MNT 10 million (20% of the mandatory threshold).

| VAT rate | VAT base                                                                                                                                                                                                                                                                                                                                 | Imposing timing                                                                                                                                                                                                                                                                                                                                                                                                                 |
|----------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 10%      | <ul style="list-style-type: none"> <li>VAT base is the fair market value of the goods sold, work performed, or services provided.</li> <li>According to the Law on Customs Tariffs and Duties, VAT imposed on imported goods, should include customs duty, excise tax and other such taxes on the customs value of the goods.</li> </ul> | <p>VAT will be imposed at the earliest of the following events:</p> <ul style="list-style-type: none"> <li>the day when the seller receives revenue for goods, works and services;</li> <li>the day when the payment receipt has proceeded for sales of goods and rendered services;</li> <li>the day of purchase of goods, works and services.</li> </ul> <p>Thus, output VAT is imposed on earlier cash or accrual basis.</p> |

**VAT zero rate** applies to the following goods, works and services:

- Export sales of goods;
- International transportation services;
- Services provided outside of Mongolia;
- Services provided to a foreign citizen or legal entity not present in the territory of Mongolia during the provision of services;
- Services provided to domestic or international aircrafts conducting international flights;
- State medals and coins produced domestically;
- Export of final mining products.

### Deadline for tax reporting and payment

| Return     | Deadline          | Payment                     |
|------------|-------------------|-----------------------------|
| VAT return | 10th of the month | 10th of the following month |

### Zero rate

10% Reverse Charge VAT (RCVAT) shall apply for works and services received from a non-resident. In addition, goods shall be taxed with the RCVAT if imported goods were not subject to customs clearance.

### VAT REFUND

A registered VAT payer can claim a refund when their input VAT exceeds their output VAT. The process is as follows:

#### 1 APPLICATION

The taxpayer must submit a formal refund request as part of their regular VAT return and reconciliation.

#### 3 APPROVAL & TRANSFER

Once approved, the tax office forwards the refund proposal to the State Treasury.

#### 2 VERIFICATION

The corresponding tax office will review the application to confirm eligibility under the VAT Law.

#### 4 DISBURSEMENT

The State Treasury is required to disburse the refund to the applicant's bank account within 45 business days of receiving the complete documentation.

Important Note: Instead of a cash refund, the taxpayer has the option to offset the VAT credit against future VAT or other tax liabilities (with the exception of royalty payments for mineral resources).

## PERSONAL INCOME TAX

|                             |                                                                                                                                                           |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Resident taxpayer</b>    | stayed in Mongolia for more than 183 days within a consecutive 12-month period, or earned more than 50% of their taxable income is sourced from Mongolia. |
| <b>Nonresident taxpayer</b> | A nonresident taxpayer is subject to personal income tax on income earned from Mongolia.                                                                  |

| Income (MNT)                                                       | Rates for resident taxpayers                                   | Rates for nonresident |
|--------------------------------------------------------------------|----------------------------------------------------------------|-----------------------|
| MNT 0-120 million or<br>(MNT 0-10 million per month)               | 10%                                                            |                       |
| MNT 120-180 million or<br>MNT 10-15 million per month              | MNT 12 million<br>+<br>15% on income exceeding MNT 120 million | 20%                   |
| More than MNT 180 million or more<br>than MNT 15 million per month | MNT 21 million<br>+<br>20% on income exceeding MNT 180 million |                       |

### Withholding Tax

#### Reduced 5% WHT Rate:

Applies to the following payments to non-residents:

- Interest on bonds issued by Mongolian commercial banks.
- Dividends and interest from traded securities (shares, debt instruments) of local entities, excluding those in the mineral resources, oil, and mining sectors.

#### Standard WHT Rates:

- 10% WHT: On dividends, interest, and royalties paid to resident companies and individuals.
- 20% WHT: On dividends, interest, royalties, and payments for goods/services (including digital) paid to non-residents.

### Tax Reporting Deadlines

- Quarterly WHT Report: Due by the 20th of the first month following the end of the quarter.
- Annual Corporate Tax Report: Due by February 15 of the following year.
- Individual Income Tax Return: For income not subject to withholding, due by February 15 of the following year.

## SOCIAL AND HEALTH INSURANCE

Social and health insurance contributions are mandatory for both employers and employees in Mongolia. This requirement also applies to non-resident employees working under employment or service contracts.

The basis for calculating mandatory social and health insurance contributions includes:

- Wages and allowances paid in accordance with the Labor Law of Mongolia; or
- Remuneration provided under service or work performance contracts.

The social insurance fund provides pensions and benefits including maternity allowance, sickness allowance, occupational accident allowance, unemployment benefits and pensions to employees.

### Social and health insurance contribution rates

| Type of insurances                           | Employer rate      | Employee rate |
|----------------------------------------------|--------------------|---------------|
| Pension                                      | 8.5                | 8.5           |
| Benefit                                      | 1.0                | 0.8           |
| Health                                       | 2                  | -             |
| Industrial accident and occupational disease | 0.5 - 2.5          |               |
| Unemployment                                 | 0.5                | 0.2           |
| <b>Total</b>                                 | <b>10.5 - 12.5</b> | <b>9.5</b>    |

### DEADLINE FOR REPORTING AND PAYMENT

| Return                             | Deadline                   | Frequency     | Payment                    |
|------------------------------------|----------------------------|---------------|----------------------------|
| Social and health insurance return | 5th of the following month | Monthly basis | within the reporting month |

# Why Invest in Mongolia?



Strategic location between Russia and China



Rich in natural resources



Fast-growing private sector



Liberal foreign investment laws

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