



LAW OF MONGOLIA

16 June 2006

Ulaanbaatar

LAW ON PERSONAL INCOME TAX /Revised version/ /Unofficial translation/

CHAPTER ONE

GENERAL PROVISION

Article 1. Purpose of the law

1.1. The purpose of this law is to regulate relations concerning imposition of tax on income of individuals and transference thereof to the budget.

Article 2. Legislation

2.1. The legislation on personal income tax (hereinafter referred to as “tax”) shall comprise the General Taxation Law, this law, and other laws and legal acts enacted in conformity with them.

Article 3. Framework of the law

3.1. This law shall regulate relations concerning imposition of tax on income of individuals other than sole proprietorships whose income from work and services cannot be determined on each occasion.

Article 4. Definition of legal terminology

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

4.1.1. ”Income earned in a foreign country” is income earned by a taxpayer through employment, business operations, and ownership, use, transfer, and sale of rights to movable and immovable property in a foreign country;

4.1.2. “Herdsman family” refers to a family that rears its private livestock on a regular basis and earns its primary income from its livestock benefits;

4.1.3. “Individual with livestock” refers to an individual who owns livestock other than those specified in subparagraph 4.1.2 of this law;

4.1.4. “Withholder” refers to an entity obliged to withhold tax imposed on taxpayer’s income in conformity with this law and transfer the withholding to the state

and local budget.

CHAPTER TWO

TAXPAYER

Article 5. Taxpayer

5.1. A citizen of Mongolia, foreign national and stateless person who resides in Mongolia and earns income subject to tax for the tax year or who is liable to pay tax under this law, even though the same income is not earned, shall be a taxpayer.

5.2. A taxpayer specified in paragraph 5.1 of this law shall be classified as either a permanent resident taxpayer of Mongolia or non-resident taxpayer of Mongolia.

Article 6. A permanent resident taxpayer of Mongolia

6.1. The following individuals shall be permanent resident taxpayers of Mongolia:

6.1.1. An individual with a residence in Mongolia;

6.1.2. An individual who resides in Mongolia for 183 or more days in a tax year;

6.1.3. A civil servant of Mongolia appointed to work overseas.

6.2. The period specified in subparagraph 6.1.2 of this law shall be calculated based on the number of days of a calendar year from the day of entry into Mongolia and in case of multiple entries, it shall be determined based on the total days of taxpayer's stays in Mongolia.

6.3. A foreign national appointed at a foreign diplomatic mission, consulate, the United Nations, and their branches and his/her family members who reside in Mongolia shall not be considered residents of Mongolia.

Article 7. A non-resident taxpayer of Mongolia

7.1. An individual who has no residence in Mongolia and has not resided in Mongolia for 183 or more days in a tax year shall be a non-resident taxpayer.

7.2. Duration of a non-resident taxpayer's stay in Mongolia shall be determined in conformity with paragraph 6.2 of this law.

CHAPTER THREE

TAXABLE GROSS INCOME AND EXEMPT INCOME

Article 8. Taxable gross income

8.1. The following income of a taxpayer earned in a tax year shall be subject to tax:

8.1.1. Salaries, wages, bonuses, incentives, and other employment income similar to these;

8.1.2. Income from activities;

8.1.3. Income from property;

8.1.4. Income from sale of property;

~~8.1.5. /This subparagraph was terminated by the law dated on June 11,~~

2009/

8.1.6. Income from creation of scientific, literary, and artistic works, invention, product design and useful design, organizing and participating in sports competition, art performance, and other income similar to these;

8.1.7. Income from remuneration for art performance, sports competition, and festival;

8.1.8. Income from quizzes, gambling, and lotteries;

8.1.9. Indirect income.

Article 9. Determining taxable gross income

9.1. The following procedures shall apply for determining taxable gross income:

9.1.1. Income earned by a permanent resident taxpayer of Mongolia in the territory of Mongolia and in a foreign country in a tax year shall be subject to tax;

9.1.2. Income earned by a non-resident taxpayer of Mongolia in the territory of Mongolia in a tax year shall be subject to tax;

9.1.3. If a taxpayer or someone on behalf of the taxpayer makes an investment or accumulation, the taxpayer shall be obliged to validate that the source of such investment and accumulation is included in his/her taxable gross income. If the taxpayer fails to do so, taxable gross income for the tax year shall include the total value of investment and accumulation;

9.1.4. Taxable gross income earned in the form of goods, work, and services shall be determined on the basis of selling price of comparable goods, work, and services between non-related parties;

9.1.5. If related parties have sold goods, performed work, rendered services, and transferred property below or above fair market value, the tax authority shall determine the value of such goods, work, and services based on value of transactions of similar goods, work and services between non-related parties.

9.2. Income earned and expenses incurred in a foreign currency shall be converted to tugrug based on the Bank of Mongolia's exchange rate of that day.

Article 10. Related party

10.1. If the following relationships exist with a taxpayer, taxpayer shall be "a related party:"

10.1.1. The parent, child, grandparent, grandson, or granddaughter of the taxpayer;

10.1.2. The brother or sister of the taxpayer, or a child of a brother or sister;

10.1.3. The spouse of the taxpayer, or a parent, child, brother, or sister of that spouse;

10.1.4. A legal entity under the control of the taxpayer or the individuals specified in subparagraphs 10.1.1-10.1.3 of this law.

Article 11. Salaries, wages, bonuses, incentives, and similar employment income

11.1. Salaries, wages, bonuses, incentives, and similar employment income shall include the following income:

11.1.1. Base salary, additional wages, overtime pay, bonuses, incentives, vacation pay, pension, allowances, and other similar income a taxpayer earns in accordance with an employment contract entered with an employer;

11.1.2. Allowances provided by an employer to an employee or employee's family member and other similar income;

11.1.3. Gifts provided by an employer to an employee or employee's family member;

11.1.4. Salaries, wages, bonuses, and incentives of members of a board of directors, control committee, part-time committee, other committees, and task force and other similar income;

11.1.5. All types of bonuses and incentives issued by foreign and domestic business entities, citizens, and other entities;

11.1.6. Wages, bonuses, additional wages, allowances, and other similar income from employment based on contracts entered into with legal entities or individuals other than taxpayer's primary employment.

Article 12. Income from activities

12.1. The following income from provision of professional services and conducting production and trade activities on an individual basis without establishing a legal entity shall constitute income from activities:

12.1.1. Income from professional services such as a medical practitioner, lawyer, advocate, architect, accountant, and teacher;

12.1.2. Income from production and trade through performance of work, production and sale of products, and provision of services on an individual basis;

12.2. Income from not regular business activities shall be included in income from activities.

Article 13. Income from property

13.1. The following income shall be included in income from property:

13.1.1. Leasing income;

13.1.2. Royalty income;

13.1.3. Dividend income;

13.1.4. Income from interest;

13.1.5. Income from use of properties that are in a taxpayer's possession and ownership by others.

13.2. Leasing income shall include income earned by leasing movable and immovable property.

13.3. Royalty income shall include the following payments:

13.3.1. Payment for usage of copyrighted works specified in the Law on Copyright and Corresponding Rights;

13.3.2. Payment for usage of invention, product prototype, and useful design specified in the Patent Law;

13.3.3. Payment for usage of trademark specified in the Law on Trademark and Geographic Specification;

13.3.4. Payment for transference of technology specified in the Law on Transfer of Technology;

13.3.5. Payment for usage of information related to production, trade, and scientific experiment;

13.3.6. Payment for usage of other rights similar to those specified in subparagraphs 13.3.1-13.3.5 of this law.

13.4. Income from dividends specified in subparagraph 13.1.3 shall include

monetary and non-monetary income and interest earned through profit sharing and income distribution by a legal entity with contributed capital.

13.5. Income from interest specified in subparagraph 13.1.4 shall include loan interest, bank account balance, interest on a savings account, fee for issuing a guarantee, notes payable (bond), and interest and fines earned in accordance with law and contract.

Article 14. Income from sale of property

14.1. Income from sale of property shall include the following income:

- 14.1.1. Income from sale of immovable property;
- 14.1.2. Income from sale of movable property;
- 14.1.3. Income from sale of stocks and securities;

Article 15. Indirect income

15.1. Indirect income shall include income from the following goods and services, not directly related to performance of employee's duties, provided by an employer in addition to salaries, wages, bonuses, and incentives:

15.1.1. Provision of free or discounted transportation or provision of cash for transportation;

15.1.2. Provision of payment for utilities expenses and cash for housing and fuel;

15.1.3. Provision of cash for meals and entertainment;

15.1.4. Provision of a housekeeper, chauffeur, gardener, or other services;

15.1.5. Waiver of an obligation to pay an amount owed to the employer or to any other person;

15.1.6. Interest discount on a loan if the rate of interest is lower than the market rate for a loan;

15.1.7. Other income similar to those specified in subparagraphs 15.1.1-15.1.6 of this law.

15.2. The following fringe benefits provided by an employer to an employee to improve the employee's working condition shall not be subject to gross taxable income:

15.2.1. Provision of meals provided for all employees on equal terms in a canteen, cafeteria, or dining room operated by the employer at the workplace during working hours;

15.2.2. Provision of a lounge or other services for employees who work at a remote workplace and provision of scheduled transportation for going to and returning from the workplace;

15.2.3. Interest discount on a loan provided for purchase and construction of an apartment for an employee if the interest rate is lower than that of a commercial loan;

15.2.4. Medical expenses.

15.3. Indirect income specified in paragraph 15.1 of this law shall be determined by total costs incurred by the employer in providing such income.

Article 16. Exempt income

16.1. The following income shall be exempt from tax:

16.1.1. Pension, benefits, payments, discounts, reimbursements, and one-time grant aid issued in accordance with laws of Mongolia;

- 16.1.2. Payment to a donor;
- 16.1.3. Per-diem expenses;
- 16.1.4. Proceeds from insurance;
- 16.1.5. Payments, interest, and penalties on bond of the Government and the Development bank of Mongolia. */This subparagraph was amended by the law dated on November 25, 2011/*
- 16.1.6. Costs of labor safety clothing and uniform, antidote drinks, and other similar supplies provided in accordance with laws;
- 16.1.7. Aid provided by international organizations, foreign governments, legal entities, or individuals to the Government of Mongolia, local authorities, legal entities, and individuals in an emergency situation;
- 16.1.8. Salaries and additional wages of individuals specified in paragraph 6.3 of this law;
- 16.1.9. Income earned in a foreign country by a foreign citizen and his/her family members specified in subparagraph 16.1.8 of this law;
- 16.1.10. Income of an individual who lost over 50 percent of working capacity due to development challenge;
- 16.1.11. A Mongolian state prize, government prize, Mongolian people's and honorary prize, and prize for scientific discovery;
- 16.1.12. Income of an individual who built or purchased a private apartment for residential purpose for the first time from his/her income or a loan from banking and financial organizations not exceeding MNT 30.0 million.
- 16.1.13. Income to be imposed on number of heads of the livestock of herdsman family and an individual with livestock. */This subparagraph was added by the law dated on June 11, 2009/*
- 16.1.14. Income from equipments and spare parts produced and sold within the territory of Mongolia for intended use in small and medium enterprise's production line. */This subparagraph was added by the law dated on February 09, 2011/*
- 16.1.15. Income equals to the documented payment for the purchase of the equipment of solar, wind, geothermal and other renewable energy, semi coking coal fuel producing equipment, liquid fuel and fuel gas, standardized stove or low pressure stove, insulation materials and electric or gas heater for household use of the taxpayer. */This subparagraph was added by the law dated on February 10, 2011/*
- 16.1.16. Interest income on savings of Mongolian citizen other than interest income from demand deposit and time deposit for a year or less than a year total amount of which exceeds 100 million tugrug, until January 1, 2016. */This subparagraph was added by the law dated on October 25, 2012/*
- 16.2. Exempt income shall not be included in gross taxable income.
- 16.3. The Government shall approve a list of equipments and spare parts specified in subparagraph 16.1.14 of this law for use of small and medium enterprises and the list of equipment, goods and material specified in subparagraph 16.1.15 of this law. */This subparagraph was added under the law dated February 9, 2011/, /This paragraph was amended by the law dated on February 10, 2011/*

CHAPTER FOUR

DETERMINING TAXABLE INCOME

Article 17. Determining taxable income from salaries, wages, bonuses, incentives and other similar income

17.1. Taxable income of salaries, wages, bonuses, incentives and other similar income shall be determined as follows:

17.1.1. Deducting social and medical insurance premium from income specified in subparagraph 11.1.1 and 11.1.6 of this law;

17.1.2. Total income specified in subparagraphs 11.1.2-11.1.5 of this law.

Article 18. Determining taxable income from activities

18.1. Taxable income from activities shall be determined by deducting expenses specified in subparagraphs 12.1.1-12.1.3, 12.1.5-12.1.14, 12.1.17, 12.1.19-12.1.26 and principles specified in articles 12.2, 12.3, 12.5-12.8 and 13-15 of the Economic Entity Income Tax Law.

18.2. If expenses specified in paragraph 18.1 are not documented, not related to the activities, or are expended for personal use of a taxpayer, they shall not be deducted from taxable income.

18.3. Wages paid to taxpayer's family members shall be pro-rated with social and medical expenses paid and included in expenses.

18.4. If a taxpayer expended a portion of goods produced, work performed, or services rendered for his or his family needs, it shall not be included in expenses.

18.5. If a taxpayer uses machinery, equipment, and facilities for family needs and business activities at the same time, the expense shall be calculated on a pro-rated basis.

Article 19. Determining taxable income from property

19.1. Taxable income from property shall be determined as follows:

19.1.1. Deducting cost of leasing from total lease income;

19.1.2. Total income from royalties;

19.1.3. Total income from dividends;

19.1.4. Total income from interest;

19.1.5. Total income from use of property by others.

19.2. In case a business entity with a taxpayer's contributed capital is dissolved, the expense incurred in relation to contributed capital shall be deducted from sale proceeds of its remaining assets to determine the share received by the taxpayer.

19.3. Taxable interest income on savings shall be determined by way of deducting exempt interest income on savings specified in the subparagraph 16.1.16 of this law from total amount of interest income on savings of the taxpayer in the bank.
/This paragraph was added by the law dated on February 10, 2011/

Article 20. Determining taxable income from sale of property

20.1. Taxable income from sale of property shall be determined as follows:

20.1.1. Total proceeds from sale of immovable property;

20.1.2. Deducting purchase price of stock from the selling price to determine income from sale of stock;

20.1.3. Value of a prorated portion of stock for a taxpayer after deducting cost specified in subparagraph 20.1.2 of this law in case of joint ownership of stock;

20.1.4. Deducting purchase price of securities from the selling price to determine the income from sale of securities;

20.1.5. Deducting the purchase price and documented expenses incurred in

relation to the purchase from the selling price to determine income from sale of movable property.

~~Article 21. /This paragraph was terminated by the law dated on June 11, 2009/~~

Article 22. Determining taxable amount of other income

22.1. Tax imposition on the following income shall be determined in the following principle:

22.1.1. Taxable income from creation of scientific, literary, and artistic works, invention, product design and useful design and organizing and participating in sports competition, art performance, and other similar income shall be its total value;

22.1.2. Taxable income from remuneration for sports competition, art performance, and festival shall be its total value;

22.1.3. Taxable income from quiz, gambling, and lottery shall be determined by the total value;

22.1.4. Taxable income of fringe benefit shall be determined by the total value.

CHAPTER FIVE

TAX RATE

Article 23. Tax rate

23.1. Total annual income determined as specified Articles 17-19 and subparagraphs 20.1.2-20.1.5 and 22.1.4 of this law shall be taxed at the rate of 10 percent.

23.2. Income specified in the following provisions of this law shall be taxed at the following rates:

23.2.1. Total income specified in subparagraph 20.1.1 of this law at the rate of 2 percent;

23.2.2. Total income specified in subparagraphs 22.1.1-22.1.2 of this law at the rate of 5 percent;

23.2.3. Total income specified in subparagraph 22.1.3 of this law at the rate of 40 percent.

~~23.3. /This paragraph was terminated by the law dated on June 11, 2009/~~

CHAPTER SIX

TAX CREDITS AND EXEMPTIONS

Article 24. Granting tax credits and exemptions

24.1. Tax credit equal to MNT 84,000 shall be deducted from tax imposed on annual income specified in subparagraphs 11.1.1-11.1.6 of this law.

~~24.2. /This paragraph was terminated by the law dated on June 11, 2009/~~

~~24.3. /This paragraph was terminated by the law dated on June 11, 2009/~~

~~24.4. /This paragraph was terminated by the law dated on June 11, 2009/~~

24.5. Tax imposed on income earned by a resident of Mongolia who produces or plants the following products shall be subject to 50 percent tax credit:

- a. Cereals;

- b. Potatoes and vegetables;
- c. Fruit;
- d. Fodder plants.

24.6. A tax credit equal to documented tuition payment shall be granted to a taxpayer's birth or adopted child who attends domestic or foreign college, university, or vocational school.

24.7. A tax credit specified in paragraph 24.6 of this law shall apply to a student of college, university, and vocational school who has paid tax on income from employment in the course of study and paid tuition fee.

Article 25. Foreign tax credit

25.1. A tax credit shall be granted to an individual who paid tax in a foreign country based on agreements not to impose double taxation on income and property and prevent tax avoidance.

CHAPTER SEVEN

TAX IMPOSITION, PAYMENT TO THE BUDGET, AND REPORTING

Article 26. Tax imposition and payment to the budget

26.1. A withholder specified in subparagraph 4.1.4 of this law shall impose tax in the following principles:

26.1.1. Total income specified in Article 11 and paragraphs 12.2, 13.1.2-13.1.4, and 15.1 of this law at the rate specified in paragraph 23.1 of this law, total income specified in subparagraph 14.1.1 at the rate specified in subparagraph 23.2.1, total income specified in subparagraphs 8.1.6 and 8.1.7 at the rate specified in subparagraph 23.2.2, and total income specified in subparagraph 8.1.8 at the rate specified in subparagraph 23.2.3 of this law and transfer it to the relevant budget;

26.1.2. Tax specified in subparagraph 11.1.1 of this law shall be imposed at the end of every month and transferred to the budget upon deducting credit specified in 24.1 of this law;

26.1.3. Tax specified in subparagraphs 11.1.2-11.1.5 of this law shall be imposed for each case of issued income and transferred to the budget upon deducting the credit specified in 24.1 of this law;

26.1.4. Tax specified in subparagraph 11.1.6 of this law shall be imposed for each case of issued income and transferred to the budget upon deducting the credit specified in 24.1 of this law;

26.1.5. If a taxpayer is employed for an economic entity and organization under a labor contract is entitled to the credit specified in subparagraph 16.1.12 and paragraph 24.6 of this law, the tax authority shall deduct the credit from the taxpayer's income at the end of the year when annual settlement takes place between the authority and the employer.

26.1.6. When a bank or financial institution calculates interest on the monetary savings account of a taxpayer, it shall impose tax at the rate specified in paragraph 23.1 of this law and transfer the withholding to the corresponding budget on each occasion.

26.2. The withholder shall make a note in the taxpayer's income and tax registration form regarding transactions specified in subparagraphs 26.1.2-26.1.5 of this law.

26.3. A withholder shall transfer tax withheld from a taxpayer's income to the relevant budget by the 10th of the following month in cases other than that specified in subparagraph 26.1.6 of this law.

Article 27. Payment of tax to the budget

27.1. A taxpayer shall determine his/her taxable income correctly in accordance with this law and pay tax due to the budget within the periods indicated below:

~~27.1.1. /This paragraph was terminated by the law dated on June 11, 2009/;~~

27.1.2. Income from the sale of immovable property shall be taxed at the rate specified in subparagraph 23.2.1 of this law and paid to the budget by the 15th of the first month of the following quarter;

27.1.3. Income from leasing shall be taxed at the rate specified in paragraph 23.1 of this law and paid to the budget by the 15th of the first month of the following quarter;

27.1.4. Income specified in Article 12 and subparagraphs 13.1.5, 14.1.2, and 14.1.3 of this law shall be taxed at the rate specified in paragraph 23.1 of this law on a quarterly basis and paid to the budget by the 15th of the first month of the following quarter.

27.2. If a taxpayer earns income specified in Articles 12 and subparagraphs 11.1.6, 13.1.1, 14.1.2, and 14.1.3 of this law, the income shall be taxed at the rate specified in paragraph 23.1 of this law. If a taxpayer earns income specified in subparagraph 8.1.6, the income shall be taxed at the rate specified in subparagraph 23.2.2 of this law. The taxpayer shall make a note in the taxpayer's income and tax registration form on each occasion upon confirmation by the corresponding tax authority and make final settlement with the authority at the end of a year.

~~27.3. /This paragraph was terminated by the law dated on June 11, 2009/~~

~~27.4. /This paragraph was terminated by the law dated on June 11, 2009/~~

Article 27¹. Deduction and refund of the tax

27¹.1. If an individual will have tax exemption specified in subparagraph 16.1.12 and tax credit specified in paragraph 24.6 of this law, calculation thereof can be made by way of reducing taxable gross income and payable tax amount of the individual to the relevant budget.

27¹.2. Where tax deduction specified in paragraph 27¹.1 of this law in a given year is greater than estimated tax payable in the year, tax authority shall govern it as follows:

27¹.2.1. carry-forward tax payment to pay in the following month, quarter or year;

27¹.2.2. carry-forward to other type of tax payment to pay due to the local budget in conformity with law and regulation.

27¹.3. Where tax deduction specified in paragraph 27¹.1 of this law in a given year is greater than estimated taxable income of an individual in the year, tax authority shall carry-forward to the estimated taxable income, imposed in the following month, quarter or year.

27¹.4. Excess tax payment shall be refunded to the taxpayer according to following procedures:

27¹.4.1. A taxpayer who has overpaid tax shall submit a written request of refund to a relevant tax office upon the estimation of tax due and submission of tax report;

27¹.4.2. A relevant tax office shall review, determine an amount of tax refund, inform to the taxpayer by a written form and submit taxpayer's name, registration number, account number of communicating bank and proposal that determines an amount of refundable tax within 5 working days to the unit in charge of financial matters of Governor office of province and capital city within 20 working days following the receipt of request specified in subparagraph 27¹.4.1 of this law;

27¹.4.3. The unit in charge of financial matters of Governor office of the capital city and province shall refund tax within 10 working days following the receipt of request specified in subparagraph 27¹.4.2 of this law.

27¹.5. The government member in charge of financial matters shall approve the regulation on activities related to deduction and refund of tax, and its recording in accounting.

27¹.6. The tax refund shall be part of the local budget and not exceed 20 percent of total amount of the same type of tax revenue to be paid into local budget in a given year.

/The article 27¹ was added by the law dated on November 13, 2008/

Article 28. Timeframe for tax reporting

28.1. A withholder shall submit a quarter-to-date report of tax withheld as specified in Articles 11, 15 and subparagraphs 8.1.7, 8.1.8, 13.1.2-13.1.4, and 14.1.1 of this law by the 20th of the first month of the following quarter and year-to-date tax report by February 15th of the following year to the relevant tax office.

28.2. Income specified in article 15 and subparagraphs 8.1.6, 11.1.6, 12.1.1, 12.1.2, 12.2, 13.1.1, 13.1.5, 14.1.2 and 14.1.3 of this law shall be reported on an individual tax form and submitted to the tax authority by February 15 of the following year.

CHAPTER EIGHT

OTHER

Article 29. Registration of a taxpayer

29.1. The national taxation authority shall register a taxpayer in the following procedure:

29.1.1. The taxpayer shall register with a tax authority located in corresponding area and obtain a taxpayer's registration number;

29.1.2. The taxpayer shall fill out a registration form to obtain the registration number;

29.1.3. The tax authority shall issue a certificate with registration number to a taxpayer;

29.1.4. The withholder shall make a note of the taxpayer's registration number on the taxpayer's income tax form each time the withholder pays income and submit a quarter-to-date report of income issued and tax withheld to the corresponding tax authority.

29.2. The state administrative body in charge of taxation shall approve designs of form and certificate specified in subparagraphs 29.1.2 and 29.1.3 of this law. */This paragraph was amended by the law dated on December 19, 2008/*

Article 30. Entry into force

30.1. This law shall enter into force on January 1, 2007.

30.2. Income specified in subparagraphs 13.1.3 and 13.1.4 of this law shall be taxed from January 1st of 2013. */This paragraph was amended by the law dated on December 28, 2007/*

SPEAKER OF THE STATE GREAT
KHURAL OF MONGOLIA

TS. NYAMDORJ