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BUSINESS ENTITY/CORPORATE INCOME TAX LAW

/Revised edition/

CHAPTER ONE

General Provisions

Article 1. Purpose of the Law

1.1. The purpose of this Law shall be to regulate the relations with respect to the imposition of income tax on business entity, payment thereof to the state budget, and reporting.

Article 2. Legislation on business entity income tax

2.1. Legislation on business entity income tax (hereinafter referred to as "income tax") shall consist of the General Taxation Law, this Law, and other relevant legislative acts enacted in compliance with them.

Article 3. Scope of application of the law

3.1. This Law shall regulate the relations with respect to the imposition of income tax on taxpayers who are located in and outside of Mongolia.

Article 4. Definitions of the legal terms

4.1. The following terms used in this Law shall have the following meaning:

4.1.1. the term "Business entity/corporate" shall refer to a company, a partnership, a cooperative, a state-owned or a locally-owned economic enterprise and a similar economic entity that is subject to corporate income tax and registered with the State Registry, and a foreign or a domestic non-profit legal entity that earns income through the sale of goods, works, and services;

4.1.2. the term "Intangible asset" shall refer to a non-material asset specified in Article 84.5 of the Civil Law;

4.1.3. the term "Actual foreign currency exchange profit and loss" shall refer to a profit or a loss arising from a transaction of buying or selling foreign currencies and a transaction of the settlement of receivables and payables denominated in foreign currencies;

4.1.4. the term "Income generated in a foreign country" shall refer to an income, other than those specified in subparagraphs 4.1.6 and 4.1.7 of this Law, earned by a taxpayer or a representative office as specified in paragraph 5.3 of this Law;

4.1.5. the term "Expenses for ceremonial and entertaining events" shall refer to transportation costs, entertainment expenses, hotel and restaurant expenses and translator's fees spent in the course of receiving guests and delegates for the purpose of establishing business relationships and expanding business cooperation within the frameworks of economic activities;

4.1.6. the term "Income earned in Mongolia" shall refer to an income earned by a taxpayer in Mongolia as specified in paragraph 7.4 of this Law;

4.1.7. the term "Income sourced from Mongolia" shall include the following incomes generated by a taxpayer:

4.1.7.a. income earned by a non-resident taxpayer for works and services provided directly or by electronic means and income received from a taxpayer or a representative offices located in Mongolia as a result of sale of goods;

4.1.7.b.income earned by a foreign business entity from arts, culture, sports and other activities organized in Mongolia as referred to in subparagraph 5.5.2 of this Law;

4.1.7.c.dividend income paid by a taxpayer residing in Mongolia to a taxpayer not residing in Mongolia;

4.1.7.d.interest income paid or transferred by national or local administrative authorities or by a taxpayer or a representative office residing Mongolia to a taxpayer not residing in Mongolia as specified in paragraph 9.4 of this Law;

4.1.7.e.income earned from selling, transferring, or leasing a property, that is possessed, used, or owned by a non-resident taxpayer, and related rights in Mongolia;

4.1.7.f.income from royalties, from renting, borrowing and granting a right to use movable and immovable property, intangible assets from financial lease interest, and from technical, management, consulting and other services, paid by a taxpayer residing in Mongolia to a non-resident taxpayer;

4.1.7.g.income transferred by the representative office to a taxpayer not residing in Mongolia, but operating in Mongolia through its representative office;

4.1.7.h.income from selling and transferring properties and the rights related to the properties that are possessed, used and owned by the representative office of a taxpayer not residing in Mongolia;

4.1.7.i.income from selling and renting movable, immovable and intangible properties used by the representative office of a non-resident taxpayer in Mongolia;

4.1.7.k.other incomes similar to those specified in subparagraphs 4.1.7.a-4.1.7.i of this Law.

4.1.8.the term "Withholder" shall refer to the meaning as defined in subparagraph 6.1.19 of the General Taxation Law;

4.1.9.the term "Immovable property" shall refer to the meaning as defined in Articles 84.3 and 86.2 of the Civil code;

4.1.10.the term "Exploration expense" shall refer to documented expenses incurred directly as a result of exploration activities of mineral resources and radioactive minerals specified in subparagraph 4.1.6 of the Minerals Law and subparagraph 4.1.8 of the Petroleum Law;

4.1.11.the term "Affiliated persons" shall refer to the meaning as defined in Article 27 of the General Taxation Law;

4.1.12.the term "License holder" shall refer to a person who holds the license for exploring and mining minerals, radioactive minerals, and oil and the right for using and possessing land according to the conditions and requirements prescribed by the law.

Article 5. Business entity as an income taxpayer

5.1.Any business entity that earns taxable income for the current tax year or is bound to pay tax by the law, notwithstanding the absence of taxable income, shall be a taxpayer.

5.2.Taxpayers shall be classified as resident and non-resident taxpayers.

5.3.Resident taxpayers in Mongolia shall comprise the following business entities:

5.3.1.an entity incorporated in accordance with the laws of Mongolia;

5.3.2.a foreign business entity with its governing body located in Mongolia;

5.4.The foreign business entity, with its governing body residing in Mongolia, referred to in subparagraph 5.3.2 of this Law shall be a foreign business entity that meets three or more of the following criteria:

5.4.1.more than 50 percent of shareholders or shareholders who exercise their rights and obligations as shareholders directly or indirectly through their representatives reside in Mongolia;

5.4.2.more than 50 percent of shareholders' meetings for the last consecutive four years preceding the current tax year have been convened in Mongolia;

5.4.3.the accounting and financial documents are kept in Mongolia;

5.4.4. not less than 25 percent of the members of the Board of Directors or the members who exercise their rights and obligations as members of the Board of Directors directly or indirectly through their representatives reside in Mongolia;

5.4.5. not less than 60 percent of total sales income earned in Mongolia or be sourced from Mongolia.

5.5. Non-resident taxpayers in Mongolia shall comprise the following business entities:

5.5.1. a foreign business entity operating in Mongolia through its representative office;

5.5.2. a foreign business entity earning income in Mongolia and sourcing income from Mongolia in a form other than specified in subparagraph 5.5.1 of this Law.

Article 6. Representative office

6.1. A unit of a taxpayer, specified in subparagraph 5.5.1 of this Law, operating in Mongolia on a full or partial scale shall be referred to as a representative office.

6.2. The following units shall be deemed as representative offices as specified in paragraph 6.1 of this Law:

6.2.1. units of management of an enterprise;

6.2.2. branches and departments;

6.2.3. units responsible for training, seminars and exhibitions;

6.2.4. units responsible for warehousing, sale, and services;

6.2.5. units responsible for mines, oil or gas boreholes, and mining of minerals;

6.2.6. plants;

6.2.7. other departments, units and places specified in paragraph 6.1 of this Law.

6.3. Units undertaking activities with regard to construction sites, buildings, assembling and installation facilities, and other related construction and controlling works for a period of 90 days or more during the course of consecutive 12 months shall be deemed as representative offices.

6.4. Units providing technical, consulting, management, controlling and other services to taxpayers residing in Mongolia, on its own or through hired skills, for a period 183 days or more during the course of consecutive 12 months shall be deemed as representative offices.

6.5. The time periods specified in paragraphs 6.3 and 6.4 of this Law shall be the total duration spent for the performance of same or related activities and services.

6.6. Units conducting the following activities in Mongolia on behalf of a taxpayer not residing in Mongolia shall be considered as representative offices:

6.6.1. the storage, sale and supply of goods and products;

6.6.2. the conclusion of contracts in person or the arrangement for concluding contracts on behalf of a non-resident taxpayer without altering the main conditions of the contracts.

6.7. Any contract featuring any of the following conditions shall be considered as a contract specified in subparagraph 6.6.2 of this Law:

6.7.1. to be established in the name of a non-resident taxpayer;

6.7.2. to transfer properties or the rights to use or possess such properties that a non-resident taxpayer owns or, if doesn't own, has the rights to use or possess;

6.7.3. to provide services offered by a taxpayer not residing in Mongolia.

6.8. Any non-resident taxpayer receiving insurance premiums, other than reinsurance, or offering a risk insurance in Mongolia through other parties shall be considered as having a representative office in Mongolia, regardless of paragraphs 6.1, 6.2, 6.3, 6.4, 6.5, 6.6 and 6.7 of this Law.

6.9. The term "Representative office" used in the International agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and properties, which was ratified by the State Great Khural, shall be considered as identical to the term "Representative Office" referred to in this Law.

6.10. The procedure for the registration, deregistration, tax payment and reporting of representative offices shall be approved by the head of the State central body in charge of taxation matters.

CHAPTER TWO TAXABLE INCOME

Article 7. Taxable income

7.1.A taxpayer specified in paragraph 5.3 of this Law shall be taxed on its income earned in Mongolia, sourced from Mongolia, and generated in a foreign country for the current tax year.

7.2.A taxpayer specified in subparagraph 5.5.1 of this Law shall be taxed on its income earned in and sourced from Mongolia in connection with the activities of its representative office for the current tax year.

7.3.A taxpayer specified in subparagraph 5.5.2 of this Law shall be subject to tax on income earned in Mongolia and sourced from Mongolia for the current tax year.

7.4.The following incomes earned by a taxpayer shall be subject to tax:

7.4.1.income from operations;

7.4.2.income from properties;

7.4.3.income from sale and transfer of property;

7.4.4.other incomes.

7.5.Taxable income shall be determined by deducting the deductible income from gross income.

Article 8.Income from operations

8.1.The following incomes shall be subject to tax:

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

8.1.2.income from riddles, gambling games, and lottery activities;

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

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

8.1.5.other similar incomes specified in subparagraphs 8.1.1, 8.1.2, 8.1.3 and 8.1.4 of this Law.

8.2."Income from technical services" specified in paragraphs 6.4 and 8.1.3 of this Law shall comprise the incomes proceeding from the activities and services related to the introduction of new technologies, preparation of documents for the assessment of the norms for labor and technical safety, consumption of materials and raw material consumption in the process of production, works and services, conduct of social and economic surveys, provision of audit services, assembling and installation of equipment, provision of maintenance, analysis of samples, training and practice of engineers and technicians, and professional development.

8.3."Income from management services" defined in paragraphs 6.4 and 8.1.3 of this Law comprises incomes derived as a result of negotiating and contracting with the business entity's own experts to mobilize them for the purpose of facilitating the efficient and normal functioning of business activities /production, works and services/.

8.4."Income from consulting services" specified in paragraphs 6.4 and 8.1.3 of this Law shall include incomes accruing from the services rendered for providing professional and methodological assistance for the management, marketing, markets, investment environment and production stages and processing documents.

8.5.Income attributed a taxpayer conducting operations to generate income from properties and from the sale or transfer of properties, which is considered as the income from operations according to the international accounting standards, shall be considered as the income specified in subparagraph 8.1.1 of this Law.

Article 9.Income from properties

9.1.The following income from properties shall be subject to tax:

9.1.1.income from lease of movable and immovable property;

9.1.2.income from royalties;

9.1.3.income from dividends;

9.1.4.income from interests.

9.2.The following fees shall be imposed on income from royalties as stipulated in subparagraph 9.1.2 of this Law:

9.2.1.fee for the use and the right for the use of copyrighted works in accordance with the Law on Copyright and Related Rights;

9.2.2.fee for the use and right for the use of inventions, products or useful models as specified in the Patent Law;

9.2.3.fee for the use and related right for the use of trademarks as stipulated in the Law on Trademark and Geographical Indications;

- 9.2.4. fee for the transfer of technology as provided in the Law on Transfer of Technology;
- 9.2.5. fee for the use and related right for the use of information related to production, trade and scientific experiments;
- 9.2.6. fee for the use and related right use of equipment for production, trade and scientific experiments;
- 9.2.7. fee for the use and related right for use of other rights set forth in subparagraphs 9.2.1, 9.2.2, 9.2.3, 9.2.4, 9.2.5 and 9.2.6 of this Law.

9.3. Income from dividends set forth in subparagraph 9.1.3 of this Law shall include income earned from share ownership, monetary and non-monetary income earned from partnership or cooperation agreements, profit share and other incomes considered as dividends in accordance with the relevant laws of Mongolia.

9.4. Income from interest specified in subparagraph 9.1.4 of this Law shall include incomes received from lenders in connection with all types of debt, payables, current and savings deposits, bank guarantees, loans, credits, bonds, debt instruments and their incentives, regardless of whether they are secured by pledge or not or whether the right for an interest in debtor's assets is granted or nor, and other incomes deemed by the law as interest incomes.

Article 10. Income from the sale and transfer of property

10.1. Income from the sale and transfer of property shall include the following incomes:

- 10.1.1. income from the sale of immovable property;
- 10.1.2. income from the sale and transfer of rights granted by governmental organizations;
- 10.1.3. income from the sale of shares, securities and other financial instruments;
- 10.1.4. income from the sale of intangible assets and movable property other than those specified in subparagraphs 10.1.2 and 10.1.3 of this Law.

10.2. Income from the sale of intangible property specified in subparagraph 10.1.4 of this Law shall consist of income from the sale and transfer of the right to own, use and possess intangible assets other than those referred to in subparagraphs 10.1.2 and 10.1.3 of this Law.

Article 11. Other incomes

11.1. The following incomes shall be included in the incomes specified in subparagraph 7.4.4 of this Law:

- 11.1.1. interest, penalties /fines, compensation of losses/ and reimbursement received from a person failing to fulfill his/ her obligations;
- 11.1.2. income from riddles, gambling games and lotteries;
- 11.1.3. profit transferred from a representative office to its parent company in the current tax year;
- 11.1.4. actual income from foreign exchange rate difference;
- 11.1.5. monetary assets refunded in accordance with paragraph 9.11 of the Law on Environmental Impact Assessment and subparagraph 11.1.4 and paragraph 12.5 of the Petroleum Law;
- 11.1.6. insurance reimbursement.

Article 12. Recognition of taxable income

12.1. A taxpayer shall recognize income in the following circumstances:

- 12.1.1. when goods are sent or shipped;
- 12.1.2. by a percentage of works performed;
- 12.1.3. when income from services are received or conditions specified in an agreement are met;
- 12.1.4. every other income that has been realized and earned.

12.2. Taxable income shall be recognized at the date of receipt of goods, works or services when a taxpayer exchanges goods, works and services.

CHAPTER THREE EXPENSES DEDUCTIBLE FROM TAXABLE INCOME

Article 13. Requirements for the expenses deductible from taxable income

13.1. Expenses meeting all the following conditions at the simultaneously shall be deducted from taxable income:

13.1.1. expenses should pertain to the given tax return period;

13.1.2. expenses should be directly related to the operations of the taxpayer for earning taxable income;

13.1.3. expenses should be realistic and be confirmed by the documents and records specified in Article 13 of the Law on Accounting;

13.1.4. costs of the following goods, works and services should be verified by payment receipts and Custom's certificates of taxation and payment for imported goods numbered with unique numbers as stipulated in Article 28.5 of the General Taxation Law:

13.1.4.a. costs of works and services provided by a taxpayer other than that specified in subparagraph 5.5.2 of this Law;

13.1.4.b. expenses related to the purchase of movable, immovable property and intangible assets.

13.1.5. the concerned taxpayer running the business should have paid or have reported to pay the expenses.

13.2. Expenses meeting the requirements set forth in paragraph 13.1 of this Law shall be deducted from taxable income in accordance with the following terms and conditions:

13.2.1. the relevant taxes, fees and charges should be reported to be paid to the budget;

13.2.2. expenses for business trips should not be more than twice the same expenses of civil servants;

13.2.3. the fund created for the prevention of contingent loss, which could occur the loans due to the banking and nonbanking financial institutions are paid, should not include the fund created for ensuring normal loan balance;

13.2.4. expenses incurred to eliminate damages caused by natural disaster should be confirmed by the relevant organization's conclusion according to the Law on Disaster Protection;

13.2.5. expenses for entertainment and ceremonial events should not exceed 5 percent of the total salary expenses paid to employees working under labor agreement and contract in that particular tax year as specified in the Labor Law;

/This subparagraph was amended according to the law as of July 2, 2021/

13.2.6. the total amount of voluntary insurance premiums of persons other than the insurer should not exceed 15 percent of the taxable income for the given tax year as specified in subparagraph 4.1.2 of the Law on Insurance.

13.2.7. the total amount of voluntary insurance premiums of persons related to the insurer shall not exceed 15 percent of the taxable income of that particular tax year as specified in subparagraph 4.1.2 of the Law on Insurance;

13.2.8. the cost for routine maintenance shall include the cost of spare parts, and it shall not exceed 2 percent of the residual value of fixed assets and 5 percent of the residual value of other properties and the cost exceeding these limitations shall be considered as the cost of a major overhaul;

13.2.9. social and health insurance and personal income tax should be imposed on salaries, wages, bonuses and other similar incomes;

13.2.10. indirect personal income should be imposed with a personal income tax as specified in Article 11 of the Law on Personal Income Tax;

13.2.11. interest expenses should be determined as specified in Article 14 of this Law;

13.2.12. in case a taxable income is paid out, the relevant income tax should be withheld and, accordingly, reported.

13.3. Expenses related to the possession and acquisition of a mining license shall be deducted from operating expenses in same amount on an annual basis till the expiry of the license.

13.4. The amount of funds to be paid by the license holder and contractor for the purpose of environmental rehabilitation and mine closure expenses shall be deducted from operating expenses in same amount on an annual basis till the expiry of the license as specified in the Minerals Law, Petroleum Law and Nuclear Energy Law.

13.5. Minerals, radioactive minerals, oil exploration and mining license holders shall calculate expenses deductible from taxable income for each report period in accordance with paragraphs 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 issuance of income to others as specified in subparagraph 9.1.4 of this Law shall be deductible from taxable income.

14.2. The amount of deductible expenses set forth in paragraph 14.1 of this Law with regard to the total transaction between affiliated persons shall be limited to 30 percent of the total sales revenue less incurred costs other than interest expenses and depreciation and amortization for the reported period.

14.3. Regardless of the paragraph 14.2 of this Law, interest expenses paid on the investor's loan exceeding the tripled amount of previously made investment by the investor to the taxpayer shall not be deductible from taxable income and shall be imposed with tax as an investor's dividend.

14.4. The term "Previously made investment" used in paragraph 14.3 of this Law shall include investments made by the investor for the acquisition of common and preferred shares and equity investments.

14.5. The restrictions specified in paragraph 14.2 of this Law shall not apply to an entity licensed to conduct business specified in subparagraphs 6.1.1 and 6.1.2 of the Banking Law and subparagraph 7.1.1 of the Law on Non-banking Financial Activities.

14.6. Interest expenses of a taxpayer on a loan received from an individual shareholder residing in Mongolia shall not be deductible from the taxpayer's taxable income.

14.7. The provisions of paragraphs 14.1, 14.2, 14.3, 14.4 and 14.5 of this Law shall also apply to representative offices.

Article 15. Other expenses deductible from taxable income

15.1. The following expenses that meet the requirements specified in Article 13 of this Law shall be deductible from taxable income:

15.1.1. normal wear and tear of goods and materials;

15.1.2. health and social insurance premiums;

15.1.3. taxes, fees and charges reported to be paid to the budget other than that specified in subparagraph 16.1.8 of this Law;

15.1.4. expenses incurred for creating a learning environment for vocational training and production center, providing workshops with equipment and repairing the workshops;

15.1.5. expenses incurred by practicing teachers specified in Articles 11.5 and 18 of the Law on Professional Education and Training;

15.1.6. financial support provided to vocational education and training institutions for the customized preparation of own specialists;

15.1.7. donation up to 10 million tugrugs for the purpose of supporting a non-governmental organization founded by a citizen with disabilities of Mongolia;

15.1.8. donation up to 10 million tugrugs to support the sport support fund, sports associations and clubs activities;

/This subparagraph was modified according to the law as of November 13, 2019/

15.1.9. donations and funds provided for the promotion of vocational education and training;

15.1.10. donations for the reduction of pollution;

15.1.11. funds reserved for preventing contingent loss when loans due to banking and non-banking financial institutions are paid back;

15.1.12. funds reserved for a loan risk fund for savings and credit cooperatives and for preventing possible risk of other cooperatives operating in other areas;

15.1.13. special funds and state funds, founded by the relevant government organization, reflected on the annual environmental management plans of mining license holders and their contractors in accordance the Law on Environmental Impact Assessment, the Minerals Law, the Petroleum Law and the Law on Nuclear Energy, and monetary assets transferred to the account specified in paragraph 11.2.9 of the Petroleum Law;

15.1.14.expenses incurred by the Fund for seniors within the limits set forth in paragraph 14.7 of the Law on the Elderly.

15.2.The Government shall approve the amount of wear and tear specified in subparagraph 15.1.1 of this Law.

15.3.If a taxpayer not holding minerals, radioactive minerals, oil exploration and mining license move its plant or warehouse, which locates in the capital city, from the border line of the capital city other than Baganuur, Bagakhangai and Nalaikh district, expenses incurred related to the movement, which meet requirements specified in the article 13 of this Law, shall be deductible from taxable income increasing by 50 percent.

/This paragraph was added according to the law as of April 29, 2022 and shall be effective from January 01, 2023/

15.4.If a taxpayer not holding minerals, radioactive minerals, oil exploration and mining special license, which carried out its basic activities out of the border line of the capital city other than Baganuur, Bagakhangai and Nalaikh district, being registered in the local territory, in which a headquarter of the business entity operates and being registered in that local tax department hired a job seeking citizen under employment agreement for a period 183 days or more during the course of consecutive 12 months, shall deduct its salary expenses from taxable income increasing by 20 percent for once for that period of time.

/This paragraph was added according to the law as of April 29, 2022 and shall be effective from January 01, 2023/

15.5.If a taxpayer not holding minerals, radioactive minerals, oil exploration and mining special license and resided in Mongolia has issued securities that will be offered and traded publicly within domestic and foreign primary securities market, it shall increase its expense that satisfies the requirement of article 13 of this law, which was caused in direct connection with process of issuing securities by 20 percent and deduct it from taxable income.

/This paragraph was added according to the law as of November 11, 2022 and shall be effective from January 01, 2023/

15.6.If a taxpayer resided in Mongolia has issued travel ticket, or travel right that will be used for public transportation within capital as specified in subparagraph 3.1.11 of the Law on Auto Transportation to its employees in forms other than cash, shall increase its expense that satisfies the requirement of article 13 of this law with respect to purchase of such ticket and travel right by 50 percent and deduct it from taxable income.

/This paragraph was added according to the law as of November 11, 2022 and shall be effective from January 01, 2023/

Article 16.Expenses not deductible from taxable income

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

16.1.1.expenses that do not meet the conditions and limits stated in paragraphs 13.1 and 13.2 of this Law;

16.1.2.principal payment of tenant's leased asset;

16.1.3.payments, interest, and penalties made to others due to non-performance of obligations;

16.1.4.recreation and other similar expenses for employees, clients and individuals;

16.1.5.loss of assets sold to an affiliated person;

16.1.6.interest paid by a representative office to the parent company, payment for the use and lease of movable and immovable property, royalties, and fee for technical, management, consulting and other services;

16.1.7.expenses incurred in connection with the earning of income exempted from tax as specified in this Law;

16.1.8.the capital city tax and the value-added tax paid by a withholder to the state budget and the withholding tax on income earned by other persons in accordance with this Law;

16.1.9.unrealized loss due to foreign exchange rate differences;

16.1.10.increased difference in the revaluation of goods;

16.1.11.loan closed by a loan risk fund of banking and non-banking financial institutions and savings and credit cooperatives;

16.1.12.expenses for donations and assistance other than specified in paragraphs 15.1.6, 15.1.7, 15.1.8, 15.1.9 and 15.1.10 of this Law.

Article 17.Depreciation and amortization

17.1.Depreciation and amortization of properties to be used by a taxpayer for a period of one year or more shall be calculated as follows:

No	Properties groups	Useful life /years/	
		Holders of minerals, radioactive minerals, and oil exploration and mining licenses	Others
1	Buildings, facilities and landscape	40	25
2	Vehicles, machineries, mechanisms, production equipment	10	
3	Computers, accessories and software	2	
4	Intangible assets with indefinite useful life /including minerals exploration and mining licenses/	For the validity term	
5	Other assets	10	

17.2.Depreciation and amortization shall not be applied to an increased difference due to revaluation of properties.

17.3.Depreciation and amortization of assets shall be calculated on a straight-line basis.

17.4.The costs for purchasing, constructing, assembling, transporting and insuring transportation of non-current assets shall be included in the depreciation and amortization cost of the asset.

17.5.The cost of a major overhaul specified in subparagraph 13.2.8 of this Law shall be added to the residual value of the asset and the depreciation and amortization cost shall be calculated for the remaining useful life of the asset.

17.6.If some parts of assets to be depreciated and amortized are used for gaining taxable income, the depreciation and amortization cost of the assets shall be calculated in the same proportion of the used parts and deducted from taxable income.

17.7.Currents assets, land, goods, inventory, paintings, handicrafts, antiques, jewelry and other similar items shall not be depreciated and amortized.

17.8.If a taxpayer buys a building together with other assets, the purchase price shall be allocated to each purchased asset. If the building is purchased for the purpose of building a new building on the land, the cost for taking down the building and the purchase amount shall be absorbed in the construction cost.

17.9.If a taxpayer permanently ceases to use a depreciable asset in his/her ownership for the purpose of gaining taxable income, the asset shall be taxed considering that the asset is sold at the higher of its residual value and market price.

17.10.The total value of properties for which a tenant has the right to use shall be valued as equal to the total sum of lease payments to be paid throughout the lease period and the depreciation shall be calculated for the rest of the lease contract.

17.11.The depreciation and amortization fee to be paid by a taxpayer for a property newly acquired during the current quarter shall be calculated starting from the first day of next month.

17.12.The calculation of the depreciation and amortization cost of every fixed asset still in the course of construction and installation shall begin from the first day of next month following the registration and start of using of the asset for the designated purpose.

17.13.A minerals and radioactive minerals exploration license holder and contractor specified in the Petroleum Law are responsible for accumulating and recording the exploration expenses,

license fee, expenses related to possessing, selling and transferring license as exploration assets and depreciate them for the mining and site utilization period.

17.14. Monetary assets transferred by an exploration license holder to the account set forth in paragraph 38.1.8 of the Minerals Law, paragraph 11.2.9 of the Petroleum Law, and in paragraph 28.9 of the Law on Nuclear Energy shall be considered as exploration assets specified in paragraph 17.13 of this Law.

17.15. The term "landscape" set forth in paragraph 17.1 of this Law does not include dumping expenses related to mining operations.

17.16. A taxpayer not holding minerals, radioactive minerals, oil exploration and mining license can depreciate its newly built property in Baganuur, Bagakhangai and Nalaikh district of the capital city and other aimags and soums from 1 January, 2023 for 15 years on a straight-line basis by its own choice, as specified in subparagraph 1 of paragraph 17.1 of this Law.

/This paragraph was added according to the law as of April 29, 2022 and shall be effective from January 01, 2023/

CHAPTER FOUR DETERMINATION OF TAXABLE INCOME

Article 18. Determining taxable income

18.1. Income tax shall be imposed on a taxpayer's taxable income in a given year.

18.2. Taxable income for the given year shall be determined by deducting expenses provided in this Law from the total taxable income set forth in paragraphs 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 further deducting carry-forward loss specified in Article 19 of this Law.

18.3. The taxable income for shares, securities and other financial instruments shall be calculated by deducting the purchase price of the shares and securities and the documented commission paid at the purchase from the sale and transfer prices for shares, securities and other financial instruments.

18.4. The taxable income for the activities specified in subparagraph 8.1.2 of this Law shall be calculated by deducting the monetary assets and goods given out as prizes and the expenses meeting the requirements stipulated in paragraph 13.1 of this Law from the total taxable income.

18.5. The taxable income for the sale and transfer of intangible assets and movable assets indicated in subparagraph 10.1.4 of this Law shall be determined by deducting the assets residual values from the income accruing from their sale and transfer.

18.6. Taxable income of the following revenues shall be determined by the amount of the total income for each type of income:

18.6.1. income from royalty;

18.6.2. income from dividend;

18.6.3. income from interest;

18.6.4. income from the sale and transfer of immovable property;

18.6.5. income from riddles, gambling games and lotteries;

18.6.6. the profit transferred from a representative office to its head office for the tax year;

18.6.7. incomes specified in subparagraphs 11.1.5 and 11.1.6 of this Law;

18.6.8. incomes specified in subparagraphs 4.1.6, 4.1.7, and 8.3 of this Law earned by a non-resident taxpayer in Mongolia other than a representative office registered in accordance with the procedure specified in 6.10 of this Law.

18.7. In determining taxable income accruing from the sale and transfer of the right specified in subparagraph 10.1.2 of this Law, the following documented expenses shall be deducted:

18.7.1. charges and fees confirmed by documents and paid to the relevant government bodies for obtaining permission from them;

18.7.2. if they are bought or transferred from others, the documented payment for purchasing or transferring.

18.8. The methodology set forth in paragraph 30.6 of this Law shall be followed in determining the taxable income for land possession and use and minerals exploration and mining licenses.

18.9.If a taxpayer's joint stock company is liquidated, the taxable income of dividend shall be determined by deducting the initial purchase price of the shares and assets from the amount of the income distributed in proportion to the amount of shares and equity held by the taxpayer.

18.10.If a loan deductible from taxable income, issued by a loan risk fund of a savings and credit cooperative for preventing possible loss to be occurred when the loan issued by a banking or non-banking financial institution, is repaid, the repaid loan shall be imposed with tax in accordance with this Law.

18.11.The amount of taxable income of a business entity conducting insurance business shall be determined by deducting the reserve fund and operational expenses for the given year from the total income accruing from its insurance business in accordance with the charter approved by the authorized body of the entity.

18.12.The taxable income of a representative office shall be determined by using the same principle as the taxable income of a taxpayer residing in Mongolia as specified in this Law and the status of a representative office shall not serve as grounds for reducing taxable income.

Article 19.Tax deductions for carry-forward tax losses in the tax return.

19.1.The expenses meeting the conditions and requirements of this Law shall be deducted from the total taxable income and the surplus expenses shall be named as the loss of tax statement (hereinafter referred to as "loss").

19.2.Tax loss carry forward confirmed by the relevant tax authority shall be deducted every year for consecutive four years following the year when the loss occurred by limiting it by 50 percent of the total taxable income.

19.3.The balance of loss left after tax deduction for four consecutive years and loss for the given year exceeding the limit set forth in paragraph 19.2 of this Law shall not be deducted from taxable income.

19.4.In case loss occurs for more than one tax year, the losses shall be deducted from taxable income in the sequence of years it occurred.

19.5.The loss of a representative office, located in a foreign country, of a company incorporated under the laws of Mongolia shall not be deductible from taxable income in Mongolia.

19.6.In calculating carry-forward losses as specified in paragraph 13.5 of this Law, the provisions of paragraphs 26.9, 26.10, 26.11, 26.12 and 26.13 of this Law shall be applied to minerals, radioactive minerals, and oil exploration and mining license holding taxpayers.

19.7.If minerals, radioactive minerals, and oil exploration and mining license is expired, canceled, and the entire licensed area is returned, the provision 19.6 of this Law shall not be applied for carrying forward the loss.

19.8.The balance of loss not yet deducted shall not be excluded from taxable income if a business entity is reorganized by way of merger, consolidation or separation in accordance with the Civil Law, the Company Law, and the Partnership Law.

19.9.The loss reported in the tax return of the previous year prior to January 1, 2020 or the loss not confirmed by the tax office shall not be included in the loss specified in paragraph 19.1 of this Law.

19.10.The loss reported in the tax return of a business entity that made investment in a free zone shall be deducted from taxable income for the period of consecutive four tax years following the completion of construction project and start of operations.

19.11.The head of the State administrative body in charge of taxation shall approve the procedure for calculating and confirming the losses reported in the tax return.

CHAPTER FIVE TAX RATE

Article 20.Tax rate

20.1.A taxable income earned in the amount 0-6 billion tugruqs for the given year shall be imposed with a 10 percent tax and taxable income over of 6 billion tugruqs for the given year shall be imposed with a tax equal to 600 million tugruqs plus 25 percent for taxable income in excess of 6 billion tugruqs in accordance with paragraphs 18.2, 18.3, 18.4 and 18.5 of this Law.

20.2.The following taxable incomes of a taxpayer shall be imposed with tax at the following rates:

20.2.1. taxable income specified in subparagraphs 18.6.1, 18.6.2, 18.6.3, 18.6.7 and 18.7 of this Law shall be imposed with a 10 percent tax;

20.2.2. taxable income specified in subparagraph 18.6.4 of this Law shall be imposed with a 2 percent tax;

20.2.3. taxable income specified in subparagraph 18.6.5 of this law shall be imposed with a 40 percent tax;

20.2.4. taxable income specified in subparagraphs 18.6.6 and 18.6.8 of this Law shall be imposed with a 20 percent tax;

20.2.5. debt instruments and shares that will be offered and traded publicly within domestic and foreign primary and secondary securities market, taxpayer's interest and dividend that bought par value of a taxpayer not holding minerals, radioactive minerals, oil exploration and mining special license (it shall also apply to entities specified in subparagraph 4.1.12 and paragraph 30.1 of this Law) and resided in Mongolia shall be imposed with a 5 percent tax;

/This subparagraph was amended according to the law as of November 11, 2020 by adding "shares" after "debt instrument" and "and of dividend" after "of interest" and it shall enter into force on January 01, 2023/

20.2.6. interest income accruing from loans and debt instruments drawn from foreign and domestic sources of a commercial bank of Mongolia shall be imposed with a 5 percent tax;

20.2.7. taxable income of a taxpayer who earned an income of up to 300 million tugrugs as specified in paragraphs 18.2, 18.3, 18.4 and 18.5 of this Law and taxable income of a business entity operating in areas other than those specified in paragraphs 22.1.1, 22.1.2 and 22.1.3 of this Law shall be taxed at 1 percent regardless of the provisions of paragraph 20.1 of this Law;

20.2.8. sale income of intellectual property right at 5 percent.

20.2.9. income transferred to a legal entity that does not reside in Mongolia with respect to software license fee and server renting fee to be used for its primary operation of taxpayer residing in Mongolia that is engaged in primary activities of software development shall be imposed with a 5 percent tax;

/This subparagraph was added according to the law as of November 11, 2022 and it shall enter into force on January 01, 2023/

20.3. A holder of a stabilization certificate shall be imposed with a tax at a stabilized rate for the period of validity of the stabilization certificate.

CHAPTER SIX TAX REDUCTION AND EXEMPTION

Article 21. Exemption from taxation

21.1 The following incomes of a taxpayer shall be exempted from tax:

21.1.1. payment, interest, and penalties for the bonds of the Government and the Development Bank of Mongolia;

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

21.1.3. revenue allotted to the Future Heritage Fund from the state budget and investment revenue of the fund;

21.1.4. incomes specified in subparagraph 18.6.2 and paragraph 20.1 of this Law earned from the sale of the allotted product by a taxpayer operating in the territory of Mongolia in accordance with a production sharing agreement in the oil industry;

21.1.5. revenues earned by a loan guarantee organization from its main activities specified in the law;

21.1.6. income from deposit insurance fund commission;

21.1.7. dividends paid by state-owned enterprises to the Government;

21.1.8. income transferred overseas from the sale of allotted products by a taxpayer who earned income in accordance with subparagraph 21.1.4 of this Law;

21.1.9.income proceeding from the operations specified in Article 15.1 of the Law on Education and Article 15.1 of the Law on Health;

21.1.10.income from economic activities in connection with the implementation of the purposes specified in the charter of a non-profit legal entity;

21.1.11.income collected as service fee as stipulated in the charter of the Apartment Owners' Association and reserve fund indicated in subparagraph 6.1.7 of the Law on the legal status of the Apartment Owners' Association and the commonly owned properties of apartments for public use;

21.1.12.income of a cooperative earned from the commission imposed for selling the products produced by its members.

21.1.13.income generated by brokerage of intellectual property right.

/This subparagraph was added according to the law as of January 23, 2020/

21.1.14.loan interest income of pledge of intellectual property right.

21.1.15.income from investment fund operation.

/This subparagraph was added according to the law as of November 11, 2022 and it shall enter into force on January 01, 2023/

Article 22.Tax reduction

22.1.The tax imposed under paragraph 20.1 of this Law on a taxpayer that reported its taxable incomes set forth in paragraphs 18.2, 18.3, 18.4 and 18.5 of this Law to be under 1.5 billion tugrugs in its year-end financial statement, operates in areas other than those mentioned hereunder and that was incorporated in accordance with the laws of Mongolia other than those specified in 20.2.7 of this Law, shall be reduced by 90 percent:

22.1.1.exploration, mining, exploitation, transportation, and sale of minerals and radioactive minerals;

22.1.2.planting of tobacco plants, producing and importing of alcohol and tobacco;

22.1.3.manufacturing of petroleum products, importing and wholesale and retail trading of all types of fuel, and exploring, mining and selling of oil.

22.2.The tax reduction specified in paragraph 22.1 of this Law shall be determined on the basis of the taxpayer's year-end tax return and refunded from the tax paid within the period specified in this Law, in accordance with Article 28 of this Law. The refund shall be issued within 30 days after the deadline for submission of the annual report regardless of the period specified in paragraphs 28.4.2 and 28.4.3 of this Law.

22.3.The amount of taxable income shall be determined by the sum of taxable income of the taxpayer and related taxpayers who had transactions with the taxpayer in the given tax year, when determining the applicability of the provisions specified in paragraphs 20.2.7 and 22.1 of this Law to the taxpayer.

22.4.Any business entity obligated to pay and report tax under paragraphs 20.2.7 and 22.1 of this Law shall not benefit from the tax reduction specified in paragraph 22.5 of this Law.

22.5.Tax reduction shall be granted the following incomes:

22.5.1.tax for the taxable income, as specified in subparagraph 7.4.1 of this Law, gained from activities carried out in the territory of the given locality as specified subparagraph 5.3.1 of this Law shall be reduced by 50 percent for remote areas where the provincial or soum center is distanced over 500 km from Ulaanbaatar city and 90 percent for those distanced over 1000 km, provided that the taxpayer regularly operates in those remote areas, the administration of the business entity is registered with the local administrative and tax authorities, and creates jobs /which should be documented with the payment of social insurance premiums/;

22.5.2.if two thirds or more of the employees of a business entity with more than 25 employees are persons with disabilities, the tax of that particular type;

22.5.3.income tax for selling equipment designed for prudent use of natural resources, reduction of environmental pollution and waste, and environmentally friendly machineries and equipment;

22.5.4. tax on income from the sale of innovative products, works and services, specified in the Innovation Law and newly created by a start-up company within five years from the date of its registration;

/This subparagraph was modified by putting "within five years" instead of "within three years" according to the law as of November 11, 2022 and it shall enter into force on January 01, 2023/

22.5.5. tax on income equal to 50 percent of the total income earned by a business entity, which constructed sports facilities, gyms, sports fields and infrastructure that meet the standards set forth in Article 26.2 of the Law on Physical culture and Sports, from its operational activities for a period 5 years from the commissioning of such sports facilities, gym and sports fields.;

22.5.6. tax on the taxable income of a business entity employing persons with disabilities who lost 50 percent or more of their physical abilities, in proportion to the total number of persons with disabilities employed by the entity;

22.5.7. tax equal to 50 percent on the investment income earned from a free zone by a business that invested 500 thousand US Dollars or more for the construction of infrastructure like energy and heat sources, power networks, clean water supply, sewerage, road, railway, airport and communication networks in the free zone;

22.5.8. tax equal to 50 percent on the investment income earned from a free zone by a business that invested 300 thousand US Dollars or more for the construction of warehouses, loading facilities, hotels, tourism complexes, and plants producing import substitute and export products in the free zone;

22.5.9. tax on income earned in return for an investment made by an individual, a business entity and an organization that financed the improvement of natural water quality and the restoration of rivers and streams in order to increase the water resources of a given area and ensure reliable supply of water;

22.5.10. tax on income earned by a business entity producing and planting the following products shall be reduced by 50 percent. This reduction shall apply solely to the income earned by the production of the concerned product:

22.5.10.a. cereals, potatoes and vegetables;

22.5.10.b. milk;

22.5.10.c. fruits and berries;

22.5.10.d. animal feed and feed plants;

22.5.10.e. meat and meat products produced in intensive chicken farms;

22.5.11. The tax income to be imposed on primary activity income of project for heating and electric power production, which will be implemented from January 01, 2023 by taxpayer, shall be relieved by 90% for the first 3 years and by 50% for the following 3 years starting from subsequent reporting period of gaining profit.

/This subparagraph was added according to the law of April 29, 2022 and shall be effective from January 01, 2023/

22.6. The Government shall approve the list of machineries, equipment, products, works and services specified in subparagraphs 22.5.3 and 22.5.4 of this Law.

22.7. Tax reduction shall not exceed the tax paid in the time period specified in this Law for the concerned income.

22.8. Sub paragraph 22.5.1 of this Law shall not apply to the following industries:

22.8.1. exploration and mining of minerals, radioactive minerals, and oil and nuclear energy related activities;

22.8.2. manufacture, trade and import of alcoholic beverages;

22.8.3. planting, producing, selling, and importing tobacco plants;

22.8.4. importing or selling of petroleum products;

22.8.5. verbal services;

22.8.6. construction of energy sources, power networks and production, sale and distribution energy;

22.8.7. civil aviation operations;

22.8.8.construction and repair of road and road facilities

Article 23.Deduction of taxes paid overseas from payable income taxes

23.1.Income tax paid overseas by a taxpayer residing in Mongolia shall be deducted from tax due for the tax year.

23.2.In the following cases, taxes paid in foreign countries shall not be deductible:

23.2.1.it is possible to get refund;

23.2.2.tax interests, penalties and undue losses paid overseas;

23.2.3.tax imposed on and paid for income not subject to tax in accordance with the tax legislation of Mongolia.

23.3.The amount of deductible tax according to the paragraph 23.1 of this law shall be calculated as the lesser one of the following criteria:

23.3.1.the taxpayer's annual tax amount payable for the given year;

23.3.2.the amount of tax payable, according to the Mongolian taxation law, on taxable income imposed with tax in a foreign country.

23.4.The amount of tax specified in subparagraph 23.3.2 of this Law shall be calculated separately for each country where the tax was imposed and paid by the taxpayer in the tax year.

23.5.A surplus tax paid overseas by a taxpayer residing in Mongolia in excess of the payable amount in Mongolia shall not be refunded or setoff in the future.

23.6.The validity of the tax deduction according to paragraph 23.1 of this Law shall be based on the tax return filed with the competent authority of the foreign country, the official letter evidencing the imposition and payment of the tax, evidence and reference issued by the authority confirming the payment of the tax.

23.7.The relevant tax authority shall approve the amount of deduction according to Article 23 of this Law.

23.8.The State administrative body in charge of taxation is legally capable to exchange information with the foreign countries specified in paragraph 23.1 of this Law and the list of these countries shall be re-announced by the State administrative body in charge of taxation in the last quarter of each year or within 10 working days in case the list is changed.

23.9.A business entity registered with the tax authority in accordance with paragraph 29.1 of this Law shall not deduct taxes imposed in a foreign country from the payable taxes according to Article 23 of this Law.

23.10.The head of the State administrative body in charge of taxation shall approve the procedure for applying for the deduction of taxes imposed in a foreign country, designing tax calculation model forms and approving the deduction of taxes paid in a foreign country.

CHAPTER SEVEN

WITHHOLDING, PAYING TO THE STATE BUDGET, REPORTING AND REFUNDING TAX

Article 24.Withholding of tax

24.1.A resident taxpayer of Mongolia shall impose and withhold tax on incomes specified in subparagraphs 18.6.1, 18.6.2, 18.6.3, 18.6.4, 18.6.5, 18.6.7 and 18.6.8 of this Law.

24.2.Tax imposed on income determined as specified in subparagraph 18.6.6 of this Law shall be imposed and withheld by the representative office.

24.3.If the taxpayer, referred to in subparagraph 5.5.1 of this Law, transfers revenue accruing from the operations of its representative office to a non-resident of Mongolia, the representative office shall impose and withhold the relevant tax.

24.4.In case the person to impose a withholding tax is uncertain pursuant to this Law, the person who has taxable income shall determine and impose the tax him/herself.

24.5.Withheld tax shall be transferred to the budget within 10 business days.

Article 25.Determination of tax by him/herself and payment of it to the budget

25.1.The relevant taxation authority shall deliver monthly and quarterly tax schedules for a given tax year to taxpayers based on schedules approved by the State Central Administrative Body Responsible for Budget and Finance, in accordance with paragraphs 20.1 and 20.2.27 of this Law.

25.2.A taxpayer shall pay taxes in advance by the 25th day of each month in accordance with the payment schedule set forth in paragraph 21.3 of this Law and submit its quarterly tax return by the 20th day of the first month of the following quarter, according to the settlement made at the end of the previous quarter and the annual tax statement by February 10th of the following year, according to the settlement made at the end of the previous year, to the corresponding tax authority.

25.3.The Government shall be entitled to fully or partially withdraw the profits and dividends allotted to it into the budget and the amount of this withdrawal shall be determined by the Law on Budget.

Article 26.Reporting tax

26.1.If the taxable income of previous year is 6 billion tugrugs or more, the taxpayer shall submit to the tax authority the quarterly tax returns for the given tax year by the 20th day of the first month of the following quarter and the annual tax report by the 10th day of February of the next year.

26.2.Any taxpayer who has not registered as a taxpayer in accordance with the provision 29.1 of this Law and whose taxable income for the previous year is up to 6 billion tugrugs shall file the tax report for the first half of the given tax year by the 20th day of July and the year-end tax report by the 10th day of February of the following year to the relevant tax authority.

26.3.The determination of annual taxable income as specified in paragraphs 26.1 and 26.2 of this Law shall be based only on the annual taxable income reported in the previous year's tax return.

26.4.The taxpayer shall prepare the tax return on an incremental basis starting from the beginning of the tax year.

26.5.The taxpayer shall attach the tax report on taxes withheld in accordance with

26.6.If the withholder of an income taxpayer not residing in Mongolia is an individual person, he/she shall attach the withholding tax report prepared in accordance with Article 24 of this Law to the tax report submitted according to the Law on personal income tax.

26.7.A taxpayer established in the reported year shall submit a tax report pursuant to paragraph 26.2 of this Law.

26.8.A taxpayer who filed a report with no operations to report for the given year shall submit to the relevant tax authority every 10th day of February of the following year starting from the following tax year.

26.9.A business entity that conducts minerals, radioactive minerals, and oil exploration and mining operations shall file a tax report for each specific license in the respective tax year in accordance with this Law and make tax calculations.

26.10.If the following conditions are met simultaneously, the report referred to in paragraph 26.9 of this Law may be consolidated:

26.10.1.the borders of the licensed areas are adjacent to each other;

26.10.2.the same products are used for minerals and radioactive minerals licenses.

26.11.Reports for areas under minerals, radioactive minerals, and oil exploration and mining licenses shall not be consolidated in accordance with paragraph 26.10 of this Law.

26.12.The request to consolidate tax returns for the following year shall be submitted to the State Administrative Body in charge of taxation before the 1st day of September of the given tax year according to paragraph 26.10 of this Law.

26.13.The State Administrative Body in charge of taxation shall review the request specified in paragraph 26.12 of this Law within 30 days and shall notify the applicant about its decision whether to confirm the request.

26.14.The taxpayer shall report on tax imposed in accordance with paragraph 24.4 of this Law within the timeframe specified in this Law.

26.15.A business entity to be granted tax reduction, specified in the subparagraph 22.5.11 of this law, shall make tax assessment of the income of the project, deductible expenses, loss, reduction and exeption and make tax return of the project separately.

/This paragraph was added according to the law as of April 29, 2022 and shall be effective from January 01, 2023/

Article 27.Making a statement of price transfer for each country

27.1.The following terms used in this Law shall be interpreted as follows:

27.1.1.the term "Group" shall have the meaning as stipulated in Article 6.1.8 of the General Taxation Law;

27.1.2.the term "Participant of a Group" means a person who meets any of the following conditions:

27.1.2.a.the activities are incorporated in the consolidated financial statements of a multinational group or the activities are reflected in the consolidated financial statements of a multinational group when shares of a business entity belonging to such a group is openly traded at stock exchange;

27.1.2.b.the activities are not incorporated in the consolidated financial statements of a multinational group due to the scope and significance of its activities;

27.1.2.c.the representative office of a business entity specified in subparagraphs 27.1.2.a and 27.1.2.b of this Law that provides independent financial statements for the purpose of financial and tax reporting, internal management, organization and controlling.

27.1.3.the term "Consolidated Financial Statements" means consolidated financial statements that have been prepared in accordance with the accounting standards, such as assets, liabilities, revenues, expenditures and cash flows of the participants in a multinational group as one business entity;

27.1.4.the term "International tax treaty" means international treaties of Mongolia concluded with other countries for mutual exchange of information on taxation issues, international agreements aimed at mutual administrative assistance over tax issues, or international agreements concluded between two countries for information exchange automatically or at the request of one of them;

27.1.5.the term "System failure" means a refusal to fulfill own obligations referred to in the negotiation between the competent authorities of the parties for a reason other than those stipulated in the negotiation or a failure of the participants of a group of countries, in which Mongolia is a member, to send price send a report for each of the countries to Mongolia on a regular basis;

27.1.6.the term "Multinational non-reporting group" means a multinational group earning less than MNT 1.7 trillion according to the consolidated financial statements of the group;

27.1.7.the term "Reporting entity" means a group of persons responsible for reporting on behalf of a multinational group on a country-by-country basis, the head of a multinational group, a person appointed for reporting or the person specified in subparagraph 27.2.2 of this Law;

27.1.8.the term "Appointed reporting person" means a participant of the group appointed for the purpose of reporting for each of the countries on behalf of the head of a multinational group when the conditions specified in subparagraph 27.2.2 of this Law are fully met;

27.1.9.the term "Multinational group" means any group satisfying any of the following conditions:

27.1.9.a.two or more participants of the group are located in another country or region for tax purposes, or participants of the group operate in other countries and regions through their own representative offices;

27.1.9.b.other than the groups referred to in subparagraph 27.1.6 of this Law without obligation to report.

27.1.10.the term "Financial year of a multinational group" means the period of the financial reporting of the head of a multinational group;

27.1.11.the term "Financial year of a multinational group for reporting" means the period for reporting price transfer for each country;

27.1.12.the term "head entity of a multinational group" means a participant of a multinational group that meets the following requirements:

27.1.12.a.keeps in own dominating possession one or more participants of a transnational group, directly or indirectly, who is obligated to submit the consolidated financial statements to the country or region of its residence or to

- submit the consolidated financial statements when the shares of a participant in the group are publicly traded at stock exchanges;
- 27.1.12.b. participants other than those specified in subparagraph 27.1.12.a of this law don't dominantly possess, directly or indirectly, any one or more participants;
- 27.1.13. the term "Agreement between authorized persons" means the following:
 - 27.1.13.a. an agreement between authorized parties nominated by the parties to an international tax treaty;
 - 27.1.13.b. an agreement binding each country to exchange reports.
- 27.2. The following taxpayers shall submit a report for each country to the relevant tax authority within 12 months from the last day of the financial year of the group:
 - 27.2.1. the head of a transnational group residing in Mongolia for tax purposes;
 - 27.2.2. a participant, not the head of the group, of a group residing in Mongolia tax purposes, provided that any one of the following conditions is met:
 - 27.2.2.a. the head of a transnational group is not obligated to prepare financial statements and report for each country in accordance with the laws of the country or region where the head resides for tax purposes;
 - 27.2.2.b. the country and region where the head of a transnational group resides for tax purposes have concluded an international taxation treaty with Mongolia, but no agreement between the competent persons has been completed within the period specified in paragraph 27.2 of this Law;
 - 27.2.2.c. the relevant taxation authority notified the participant of the transnational group of a system delay occurred in the country or region where the head of the transnational group resides for tax purposes;
 - 27.2.3. in case two or more participants of a multinational group are obligated to report for each country as provided in paragraph 27.2.2 of this Law, the head of the transnational group overseeing them may appoint a reporting person and, if elected, the person shall.
- 27.3. If elected pursuant to subparagraph 27.2.3 of this Law, the participant shall notify the relevant taxation authority before submitting the year-end tax report for given the year.
- 27.4. Notwithstanding the provision 27.2.2 of this Law, the participant of the group, residing in Mongolia for tax purposes, shall not file a report to the relevant tax authority, in case the following conditions are met simultaneously:
 - 27.4.1. any of conditions set forth in subparagraphs 27.2.2.a, 27.2.2.b and 27.2.2.c of this Law is met;
 - 27.4.2. the transnational group has reported for each country through its appointed reporting person;
 - 27.4.3. the appointed reporting person filed the report for each country within the period set forth in paragraph 27.2 hereof to the tax authority of the country and region where he/she resides for tax purposes;
 - 27.4.4. the laws of the country or region, where the reporting person resides for tax purposes, require to submit a report for each country according to the requirements set forth in paragraph 27.5 of this Law;
 - 27.4.5. the country or region where the reporting person is appointed for tax purposes for the period specified in paragraph 27.2 of this Law has concluded with Mongolia an agreement between the competent persons;
 - 27.4.6. the country or region where the appointed reporting person resides for tax purposes has not notified the tax authority of Mongolia of any system failure;
 - 27.4.7. the reporting person notified the country or region, where the participant resides for tax purposes, that he/she was appointed as the reporting person in accordance with the requirements of the relevant national or regional law and submitted the notice to the tax authority according to subparagraph 27.7.2 of this Law.
- 27.5. The price transfer report for each country shall contain the following information:
 - 27.5.1. integrated information related to movable and immovable property except the income earned from each country in which the transnational group operates, profit before

tax (loss), paid income tax, income tax debt, the amount of equity, retained profits, the number of employees, cash and the like;

27.5.2.the taxpayer's number of each of the participants in a transnational group, the information on the country where they reside for tax purposes, information about the country under the laws of which they were established, if their country or region of residence for tax purposes are different, and information of the main operations of each participant.

27.6.The head of the State Administrative Body in charge of taxation shall approve the forms and procedures for each report.

27.7.The taxpayer shall have the following duties:

27.7.1.to notify if the participant of a multinational group residing in Mongolia for tax purposes is the head of the group or the appointed reporting person before submitting the year-end tax report;

27.7.2.to notify the relevant tax authority, within the period of submission of year-end tax report, of the taxpayer number of the reporting person and the information on the country or region where the reporting person resides for tax purposes, if the participant of the transnational group is not the head or the reporting person.

27.8.The tax authority shall use the report for each country for calculating tax risk, statistics and estimates and shall not make price transfer adjustment based on the report.

27.9.The tax authority shall keep the confidentiality of the information for each country in accordance with the international treaties and standards that Mongolia has acceded to.

27.10.The provision 27.2.2 of this Law shall enter into force from the date when the Mongolian Tax Authority shall officially exchange information with the Foreign Taxation Office.

Article 28.Tax refund

28.1.The calculation of overpayment or underpayment by the taxpayer and the withholder revealed in the reports submitted in accordance with Articles 26.1 and 26.2 of this Law shall be reviewed by the relevant tax authority in accordance with the following procedure and shall finalize the calculation:

28.1.1.tax to be refunded to a taxpayer for the tax year shall be restricted in accordance with paragraph 22.7 of this Law;

28.1.2.taxpayer shall select the tax reduction in accordance with Article 22 of this Law within the limits set forth in paragraph Article 22.7 of this Law;

28.1.3.taxpayer shall not partially enjoy the benefit specified in this Law;

28.1.4.the deduction specified in Article 22 of this Law shall not be carried forward to the following year.

28.2.In case the tax paid by a taxpayer for the tax year is less than the taxable amount, as a result of the calculation according to the procedure specified paragraph 28.1 of this Law, the relevant tax authority shall notify the taxpayer and make final calculation.

28.3.In case that the tax paid by the taxpayer's for the tax year is more than the taxable amount, as a result of the calculation according to the procedure specified paragraph 28.1 of this Law, the issue shall be settled in accordance with Article 49.1 of the General Taxation Law.

28.4.The surplus amount specified in paragraph 28.3 of this Law or overpayment of tax by the taxpayer shall be refunded according to the following procedure:

28.4.1.surplus tax shall be refunded to the taxpayer through the state fund account;

28.4.2.the relevant tax authority shall determine the amount of tax to be refunded within 20 working days following the submission of the report specified in paragraph 26.1 and 26.2 of this Law and submit it to the state fund;

28.4.3.the refund specified in subparagraph 28.4.2 of this Law shall be paid within the second quarter of the next year.

28.5.The procedure for regulating the relations with regard to refunding, controlling and reporting overpaid tax specified in paragraph 28.4 of this Law shall be approved by the member of the Government in charge of finance and budget matters.

28.6.Tax to be refunded shall be part of the state budget and should not exceed 30 percent of the total tax of the particular type accumulated into the state budget.

CHAPTER EIGHT SPECIFIC TAX RELATIONS

Article 29. Simplified tax regime

29.1. If the total sales revenue guaranteed by the previous year's tax report is less than 50.0 million tugrugs, the taxpayer shall apply to the relevant tax authority within the 3rd quarter of the tax year and the income tax may be determined on the basis of the actual taxable income of the taxpayer starting from the next tax year.

29.2. A taxpayer intending to use the simplified tax regime should be connected to the unified database for tax registration.

29.3. The following taxpayer shall not make a request as stated in the provision 29.1 of this Law:

29.3.1. a taxpayer registered as a VAT withholder by satisfying the conditions and requirement specified in the Value-Added Tax Law;

29.3.2. a taxpayer engaged in the following activities:

29.3.2.a. exploration, mining, exploitation, transportation and sale of mineral resources and radioactive minerals;

29.3.2.b. production and import of alcoholic beverages;

29.3.2.c. planting, production and importing of tobacco plants.

29.3.2.d. production of petroleum products, importing of all types of fuel, wholesale and retail trade, and the exploration, mining and selling of oil.

29.4. The head of the State Administrative Body in charge of taxation shall approve the procedure for registering, resolving and removing requests specified in paragraph 29.1 of this Law.

29.5. Losses reported in the tax returns for the previous years applied and registered by the taxpayer shall not be carried forward in accordance with paragraph 29.1 of this Law.

29.6. A taxpayer registered as a VAT withholder by satisfying the conditions and requirement specified in the Value-Added Tax Law and applying to the tax authority shall abandon the simplified tax regime in accordance with paragraph 29.1 of this Law.

29.7. The taxpayer shall abandon the simplified tax regime starting from the date of commencement of activities specified in subparagraph 29.3.2 of this Law.

29.8. Except as provided in paragraphs 29.6 and 29.7 of this Law, a taxpayer submitting a request to the tax authority according to this clause shall abandon the simplified tax regime in the middle of the tax year.

29.9. Taxable income determined in accordance with paragraph 29.1 of this Law shall be taxed at 1 percent.

29.10. A business entity that shall pay and report in accordance with paragraph 29.1 of this Law shall not benefit from the exemptions specified in Article 21 of this Law, the discounts specified in Article 22 and tax paid overseas in accordance with Article 23 of this law shall not be deducted from taxable income.

29.11. Based on the schedule approved by the State Central Administrative Body responsible for budget and finance, the relevant tax authority shall send to the taxpayer the monthly tax payment schedule in accordance with paragraph 29.9 of this Law for the tax year.

29.12. In accordance with the predetermined schedule specified in paragraph 29.11 of this Law, the tax shall be paid quarterly to the state budget within the 20th day of the first month of the next quarter and paid annually within February of next year.

29.13. A taxpayer registered its request with the Tax Authority according to the paragraph 29.1 of this Law shall submit annual tax return to the Tax Authority by the 10th day of February of the following year.

Article 30. Tax relations with regard to the sale and transfer of rights by way of changing the shares and interests of the final holder

30.1. The term "Final holder" shall be construed as specified in Article 6.1.48 of the General Law on Taxation.

30.2. Income earned by a license holder through a partial or full sale or transfer of minerals, radioactive minerals, and oil exploration and mining licenses and the right to possess and use land granted in accordance with the legislation of Mongolia by selling or transferring the shares,

interests, and voting rights of the final holder shall be considered as the income specified in subparagraph 10.1.2 of this Law.

30.3. The calculation of the income earned by the sale or transfer of the right is based on the procedure specified in paragraph 30.6 of this Law and the expenses proved by the following document shall be deducted from the valuation of the right and licenses:

30.3.1. fees and charges documented by receipts of payment made to the public authorities in relation to obtaining authorization;

30.3.2. payments made for purchase or transfer from others evidenced by documents issued in the course of the transaction.

30.4. With the taxable income determined in accordance with paragraph 30.3 of this Law as a base, taxable income shall be determined in proportion to the shares held by the shareholder of the shares, interests, and voting rights sold or transferred by final holder.

30.5. The assessment of land use and possession right shall be made based on the price requirements quoted in Article 38.6 of the Law on Land.

30.6. The member of the Government in charge of finance and budget matters shall approve the procedure for the imposition of tax on income specified in paragraph 30.4 of this law, the methodology for assessing the land possession and utilization right and minerals, radioactive minerals, and oil exploration and mining licenses and methodology for determining tax amount.

30.7. If the final holder specified in paragraph 30.1 of this Law is a resident taxpayer of Mongolia, the taxpayer shall be imposed with tax only for the higher income earned from the sale and transfer of final holder's shares, interests, and the voting rights or the rights set forth in paragraphs 30.3, 30.4, 30.5 and 30.6 of this Law. The lower income will be exempted from tax.

30.8. The restructure of shares, interest and voting rights among the legal entities belonging to the circle starting from the holder of the right to the final holder by way of transfer of shares, merger, consolidation, isolation, or establishment of a new legal entity without changing the total amount and size of shares, interest, and voting rights of the holder of the right.

30.9. If the shares of the holder of the right and a legal person belonging to the circle starting from the holder of the right to the final holder are traded openly on the international and local stock exchanges, up to 20 percent of the income earned by the holder of the right and the final holder from the sale or transfer of shares, interest and voting rights for continuous 12 months shall be exempted from tax.

30.10. Taxable income determined in accordance with paragraph 30.4 of this Law shall be taxed at 10 percent.

30.11. The tax imposed in accordance with paragraph 30.10 of this Law shall be imposed on the holder of right and be transferred to the budget within 30 days.

30.12. Notwithstanding the provision 30.11 hereof, the holder of the right shall pay and complete the final settlement of the semi-annual tax by the 20th day of July and the year-end tax by the 10th day of February of next year, if the shares of his/her own, the final holder and legal entities pertaining to the circle starting from the holder of the to the final holder are publicly traded on the foreign and domestic stock exchanges.

30.13. A taxpayer shall attach tax return specified in paragraphs 30.11 and 30.12 hereof along with the tax return submitted in accordance with paragraphs 26.1 and 26.2 of this Law.

Article 31. Tax relations of foreign enterprises administering their operation from Mongolia

31.1. If a related taxpayer residing in Mongolia and an individual resident of Mongolia hold, directly or through related legal entity or entities, at least 50 per cent of the total number of shares or voting rights of a foreign company for some period of the given tax year, the foreign business entity shall be deemed a foreign enterprise administering its operations from Mongolia as specified in this Article.

31.2. A foreign business entity that administers its operations from Mongolia shall be deemed a taxpayer located in Mongolia.

31.3. The taxable income of a foreign business entity that operates in a foreign country pertaining to an offshore zone as defined in the Law on regulating public and private interests in the public service and preventing conflict of interest and that administers its operations from Mongolia shall be determined as follows and subject to the following taxes:

31.3.1.total amount of income specified in subparagraphs 9.1.2, 9.1.3, 9.1.4 and 10.1.1 of this Law;

31.3.2.income specified in subparagraph 10.1.3 of this Law in accordance with paragraph 18.3 of this Law;

31.3.3.income specified in subparagraph 10.1.4 of this Law in accordance with paragraph 18.5 of this Law.

31.4.Article 31 of this Law does not apply to a foreign business entity administering its operations from Mongolia and that is established for the purpose of open trading of shares and unit rights in the primary foreign market of securities.

31.5.Foreign business entities administering their operations from Mongolia are the final holders specified in paragraph 30.1 of this Law and shall be subject to a tax imposed on a foreign citizen specified in Article 30 of this Law, in case the holder of the right imposes and reports a tax as a result of a transfer of shares, interests and voting rights and the imposed tax shall be deducted from the tax paid in a foreign country.

31.6.The taxable income specified in Article 20 of this Law shall be imposed with tax as specified in paragraph 31.3 of this Law.

31.7.Taxes imposed in foreign countries on foreign economic entities administering their operations from Mongolia shall be deducted from taxes payable for the year specified in paragraph 31.3 of this Law. Such deduction shall be in accordance with Article 23 of this Law.

31.8.The taxpayer or individual person residing in Mongolia referred to in paragraph 31.3 of this Law shall report the tax specified in paragraph 31.1 of this Law along with the report submitted to a foreign tax authority and make the final settlement by the 10th day of February of the next year.

31.9.The tax imposed under paragraph 31.3 of this Law shall be paid to the budget by 10th day of February of the following tax year based on the final calculations specified in paragraph 31.8 of this Law.

31.10.The head of the State Administrative Body in charge of taxation shall approve the procedure for determining and reporting taxable income of foreign business entities managing own operations from Mongolia and designing the reporting forms.

Article 32.Entry into force of the law

32.1.This Law shall enter into force on January 01, 2020.

THE CHAIRMAN OF THE STATE GREAT KHURAL OF
MONGOLIA ZANDANSHATAR.G