



LAW OF MONGOLIA

June 29, 2006

State Palace, Ulaanbaatar

CORPORATE INCOME TAX (Amended Law)

CHAPTER ONE General Provisions

Article 1. Purpose of the law

1.1. The purpose of this law is to regulate relations with respect to imposition of income tax on corporate entity, payment thereof to the state budget, and reporting.

Article 2. Legislation

2.1. Corporate income tax (hereinafter referred to as 'tax') related legislation consists of General Taxation Law,¹ this law, and other relevant legislative acts.

Article 3. Scope of application

3.1. This law shall be applicable for imposition of tax on income of the following corporate entities:

3.1.1. A corporate juristic person established under the laws of Mongolia, their subsidiaries and representative offices;

3.1.2. A foreign corporate juristic person with the headquarter located in Mongolia;

3.1.3. A foreign corporate entity producing revenue in Mongolia, its representative office.

¹ General Taxation Law – 'State Information' Gazette No. 1, 1993

Article 4. Definition

4.1. In this law the following terms shall have the following meaning:

4.1.1. "Profits generated in a foreign country" means profits of a taxpayer generated in a foreign country from its business, property, and sale of property as set forth in Article 7.3 of this law;

4.1.2. "Goods" means all movable and immovable property other than monetary assets;

4.1.3. "Immovable property" is as defined in Articles 84.3 and 86.2 of the Civil Code²;

4.1.4. "Intangible asset" means any assets intangible in nature having no physical value that can be of use for a long period giving its owner a right, preferential right, or exclusive right;

4.1.5. "Corporate entity" means a juristic person established in a form of a company, partnership, cooperative, or a state or locally owned enterprise that is engaged in business producing revenue, is subject to corporate income tax and registered with the state registry;

4.1.6. "Withholder" means a person that withholds tax imposed on taxpayer's income as set forth in this law and pays the same to state and local budget;

4.1.7. "Foreign currency exchange rate gain (loss)" means any exchange rate gain (or loss) derived from purchase of foreign currency, payment of receivables and payables and other transactions conducted in foreign currency.

Article 5. Taxpayer

5.1. Corporate entity shall be a taxpayer provided it produces revenue subject to tax at the end of each accounting year or is bound to pay tax under this law, notwithstanding the absence of taxable profits.

5.2. A taxpayer set forth in Article 5.1 of this law shall be either a permanent resident or non-resident taxpayer of Mongolia.

5.3. Permanent resident taxpayer in Mongolia means following corporate entity:

5.3.1. A corporate entity incorporated under the laws of Mongolia;

² 'Civil Code,' 'State Information,' No. 7, 2002

5.3.2. A foreign corporate entity with its head office located in Mongolia;

5.4. Non-resident taxpayer in Mongolia shall be the following corporate entity:

5.4.1. A foreign corporate entity that conducts its business in Mongolia within the frame of its representative office;

5.4.2. A foreign corporate entity that earns income in Mongolia in a form other than that set forth Article 5.4.1 of this law.

5.5. A representative office set forth in Article 5.4.1 of this law means any of the following that partially or wholly carries out business activity of a foreign corporate entity:

5.5.1. Branch (unit, section);

5.5.2. Plant;

5.5.3. Trade and/or service unit;

5.5.4. A mine that extracts oil, natural gas or other natural resources.

Article 6. Dependent party

6.1. Dependent party to taxpayer means if it:

6.1.1. owns 20 (twenty) percent or up of the common stock;

6.1.2. has the right for 20 (twenty) percent or up on the dividends or income distributions;

6.1.3. has the right to appoint 20 percent or more of the management of the corporate entity or to determine its business policies.

CHAPTER TWO

Taxable Income

Article 7. Taxable Income

7.1. Corporate income tax is levied on a taxpayer set forth in Article 5.3 for its revenues generated both in Mongolia and a foreign country in a given year.

7.2. Corporate income tax is levied on a taxpayer set forth in Article 5.4 of this law for its revenues generated in Mongolia in a given year.

7.3. The following revenue shall be subject to tax:

- 7.3.1. operation revenues;:
- 7.3.2. property revenues;
- 7.3.3. Revenues from sale of property.

7.4. Amount of the taxable income shall be determined with the exclusion therefrom-
of deductible expenses.

7.5. By sale of goods, works and services, the amount of taxable income shall be
determined on the basis of the standard sales price of goods, works and services applied
between independent parties.

7.6. When converting any revenues and expenses incurred in foreign currency into
Mongolian togrog, a daily exchange rate established by the Bank of Mongolia shall be
applied.

Article 8. Operation income

8.1. Following operation income shall be subject to tax:

- 8.1.1. Income from primary and auxiliary production, operation and services;
- 8.1.2. Income from sale of licenses;
- 8.1.3. Income from sale of share and securities;
- 8.1.4. Income from gaming and lottery;
- 8.1.5. Income from sale and rental of erotic publications, books, and video
recording and erotic performance;
- 8.1.6. Income from goods and services received free of charge;
- 8.1.7. Income from sale of intangible assets;
- 8.1.8. Income from technical, management, consulting and other services;
- 8.1.9. Income from interest, penalty and damages compensated for
infringement of contractual duties;
- 8.1.10. Income from foreign currency exchange;
- 8.1.11. Other income alike as set forth in Article 8.1.1-8.1.10 of this law.

8.2. Income from sale of licenses shall mean any income arising from transfer of any
operation, ownership or other license issued by an authority in conformity with the laws and
regulations.

8.3. Income from sale of intangible assets set forth in Article 4.1.4 of this law shall
mean revenue from transfer of ownership in intangible assets in line with laws and
regulations.

Article 9. Property income

9.1. Following property income shall be subject to tax:

- 9.1.1. Income from lease of movable and immovable property;
- 9.1.2. Income from royalty;
- 9.1.3. Income from dividend;
- 9.1.4. Income from interest.

9.2. Royalty income shall include the following payments:

9.2.1. Payment for use of copyrighted works set forth in the Law on Copyright and Related Rights;³

9.2.2. Payment for use of invention, product design set forth in Patent Law;⁴

9.2.3. Payment of use of trademark set forth in the Law on Trademark and Geographic Specification;⁵

9.2.4. Payment for transfer of technology specified in the Law on Transfer of Technology;⁶

9.2.5. Payment for application of valuable information related to production, trade and a scientific experiment;

9.2.6. Payment for exercise of other similar rights set forth 9.2.1-9.2.5 of this law.

9.3. Dividend income set forth in Article 9.1.3 of this law shall mean any monetary and non-monetary revenue including its interest generated through profit sharing and dividend distribution of a joint stock corporate entity.

9.4. Interest income set forth in Article 9.1.4 of this law shall mean any payment, discount and premium granted to a taxpayer for its financial transactions that may be any loan interest, interest on account balance, interest on savings, guarantee payment and interest on payable notes (bond).

Article 10. Income from sale of property

³ Law on Copyright and Corresponding Right – ‘State Information,’ Gazette No. 7, 2006

⁴ Law on Patent – ‘State Information’ Gazette No. 7, 2006

⁵ Law on Trademark and Geographic Specification – ‘State Information’ Gazette No. 19, 2003

⁶ Law on Transfer of Technology – ‘State Information’ Gazette No. 131, 1998

10.1. Following income from sale of property shall be subject to tax:

10.1.1. Income from sale of immovable property;

10.1.2. Income from sale of movable property.

Article 11. Determining taxable income on sale of goods, work and services where dependent parties involved

11.1. Provided parties set forth in Article 6 of this law sold and/or transferred goods, performed work, or rendered services below or above market price, taxable income of such goods, works and services shall be determined by the benchmark price of standard sale price of goods, works and services between independent parties.

11.2. Member of Government Cabinet in charge of finance shall approve application method of the benchmark price set forth in Article 7.5 and 11.1 of this law.

CHAPTER THREE

Deductible Expenses from Taxable Income

Article 12. Deductible expense from taxable income

12.1. Following deductible expenses shall be excluded from the taxable income:

12.1.1. Raw material, primary and auxiliary material, semi-processed products, steam, water, energy, fuel, petroleum, spare parts, packaging and wrapping material and similar expenses;

12.1.2. Social and health insurance premium, salary imposed with personal income tax, primary and additional salary payments;

12.1.3. Social and health insurance premium;

12.1.4. Employee bonus, incentive and allowance for housing, transport, meal and fuel expenses;

12.1.5. Depreciation and amortization expenses with respect to non-current assets;

12.1.6. Regular maintenance expense;

12.1.7. Loan interest;

- 12.1.8. Realized loss from foreign currency exchange rate;
- 12.1.9. Payment for work and services performed by others;
- 12.1.10 Lease payment;
- 12.1.11. Interest of financial lease payment;
- 12.1.12. Subscription of professional newspaper and magazine;
- 12.1.13 Mandatory and voluntary insurance premium;

12.1.14. Excise tax, immovable property tax, windfall profits tax, custom duties on imported goods, material, and raw material other than non-current asset, tax on transport vehicle, and fees for use of land and natural resources;

12.1.15. Reserves accumulated in the risk fund of savings and loan cooperatives and other cooperatives conducting different operation;

12.1.16. Reserves accumulated in the risk funds of banks and non-banking financial institutions;

12.1.17. Advertising expense;

12.1.18. Employee training and retraining actual expense;

12.1.19. Per-diem expense;

12.1.20. Expenses for seed, fertilizer, livestock and animal fodder, medication and injection, and plant protection activities;

12.1.21. Transportation expenses;

12.1.22. Expenses incurring with the purchase of low-cost, weary assets;

12.1.23. Labor safety expenses;

12.1.24. Communication, stationary, cleaning, and security expenses;

12.1.25. Expense for eliminating damage caused by natural disasters set forth Article 4.1.10 of the Disaster Management Law;⁷

12.1.26. Normal wear and tear of inventory;

12.1.27. Reserves accumulated for purpose of environmental rehabilitation as set forth in Articles 38.1.8 and 39.1.9 of the Minerals Law.

12.2. Expense deductible from taxable income set forth in Article 12.1.6 of this law shall not exceed 2% (two) percent of the book value of immovable property and 5% (five) percent of the book value of other property and any excess of the regular maintenance expenses shall be accounted as capital maintenance.

12.3. Voluntary insurance premium deductible from taxable income set forth in Article 12.1.13 of this law shall not exceed 15% (fifteen) percent of taxable income of the corporate entity.

⁷ Disaster Management Law – ‘State Information’ Gazette No. 25, 2003

12.4. Expenses deductible from taxable income set forth in Article 12.1.16 of this law shall exclude reserves accumulated for ordinary loan performance by a bank and non-banking financial institution.

12.5. Expense deductible from taxable income set forth in Article 12.1.19 of this law shall be actual and not exceed the twice of a civil servant's for per-diem normal expense.

12.6. The extent of damage set forth in Article 12.1.25 of this law shall be determined based on findings of the corresponding authority.

12.7. The extent of loss set forth in Article 12.1.26 of this law shall be determined by the Government.

12.8. Following expenses shall be excluded from deductible expenses:

- 12.8.1. Financial lease payment;
- 12.8.2. Fines, penalty and other damages paid due to taxpayer's infringement.

Article 13. Calculating depreciation and amortization expense

13.1. Depreciation and amortization rates set forth in Article 12.1.5 of this law shall be applicable for taxpayer's assets with the use of more than one year.

13.2. A non-current asset shall have the following period of use. Depreciation and amortization rates thereof shall be calculated on a straight-line method:

	Non-current assets	Period of use (in years)
1	Building and construction	40
2	Machinery and equipment	10
3	Computer, computer parts, and software	3
4	Intangible asset with indefinite useful life	10
5	Intangible asset with definite useful life (includes license for mineral exploration and mining)	Valid period
6	Other non-current asset	10

13.3. Expenditure for capital maintenance set forth in Article 12.2 of this law shall be added to book value of an asset and depreciated over its remaining life of use.

13.4. If an asset is partially used to earn taxable income, depreciation expense shall be prorated and deducted from gross taxable income.

13.5. A mining license holder shall depreciate its non-current assets used for production and social infrastructure at constant rate over useful life of asset and account

the incurred expense as deductible expenses each year as set forth in Article 12 of this law.

13.6. Depreciation rates for mineral exploration and mining licenses set forth in Article 13.2 of this law shall be determined by the service payments done to acquire or transfer the license, license fee and sales value of such license.

13.7. If the taxpayer ceases to use its own depreciable assets for the purpose of earning taxable income, the assets shall be assumed sold and be subject to tax for the book value or market value, whichever is higher.

13.8. Leased asset shall be recorded in the financial statements of either a lessor or lessee upon mutual agreement of the contractual parties.

13.9. Land and inventory reserve shall not be depreciable.

Article 14. Interest as deductible expenses from taxable income

14.1. Interest for a loan taken to cover primary and auxiliary production, operation, services and purchase of property set forth in Article 8.1.1 of this law shall be deductible expenses from taxable income.

14.2. Interest payments shall not be deductible expenses when the loan is provide by an individual permanently residing in Mongolia that controls the taxpayer company. The expenses shall be accounted as dividend to the individual and shall be subject to tax.

14.3. Interest payments for a loan shall not be deductible expenses when the loan provided by the investor to the taxpayer exceeds three times the value of the capital invested before. The expenses shall be accounted as dividend to the investor and shall be subject to tax.

14.4. Interest payments executed for a loan to finance construction and installation work shall be a part of the total cost of construction. Once the construction is completed, the interest payments ever since shall be deducted from gross taxable income.

Article 15. Restrictions on deductible expense

15.1. The following is the exceptions to deductible expenses:

15.1.1. Expenses incurred for earning exempt income as set forth in this law;

15.1.2. Expenses that cannot be evidenced by taxpayer;

15.1.3. Payments from which tax is not withheld whereas this law states otherwise.

CHAPTER FOUR

Determining Taxable Income

Article 16. Determining taxable income

16.1. Corporate income tax shall be levied on a taxpayer's taxable income in a given year.

16.2. Taxable income shall be determined by deducting expenses provided in Article 12 of this law from gross taxable income set forth in Articles 8.1.1, 8.1.6-8.1.11, 9.1.1 and 9.1.4 of this law for a bank, non-banking financial institution, savings and credit cooperative.

16.3. Taxable income of the following revenues shall be determined by the amount of the total income:

16.3.1. Income from dividend;

16.3.2. Income from royalty;

16.3.3. Income from sale of immovable property;

16.3.4. Income from interest;

16.3.5. Income from sale of rights;

16.3.6. Income from sale or rental of erotic publication, book, and video recording and erotic performance.

16.4. In case of liquidation of a joint corporate entity where the taxpayer is a shareholder, taxable dividend income shall be determined by deducting initial share purchase price from income prorated to the taxpayer's shares and invested capital.

16.5. In case of repayment a loan once deducted from the taxable income of a risk fund of a bank, non-banking financial institution or savings and credit cooperative, the repaid amount shall be subject to tax as regulated in this law.

16.6. Taxable income from gaming and lottery shall be determined by deducting evidenced expenses incurred in relation with income generation as well as the value of distributed lottery prizes.

16.7. Taxable income of an insurance company shall be determined by deducting from the total operation income the reserve fund established in a given year as well as operational expenses.

16.8. Taxable income from sale of shares or securities shall be determined by deducting the purchase price from the selling price thereof.

16.9. Taxable income from sale of movable property shall be determined by deducting the book value of the property from the sales income.

16.10. Following expenses shall not be deductible for a non-resident taxpayer that carries out its operation through its representative office:

16.10.1. Expenses incurred outside the territory of Mongolia;

16.10.2. Management and administrative expenses not relevant to income generation.

CHAPTER FIVE

Tax Rate

Article 17. Tax Rate

17.1. If annual taxable income determined in accordance with Articles 16.2, 16.8, and 16.9 of this law is 0-3.0 (zero to three) billion togrogs, it shall be taxed at the rate of 10 (ten) percent. If annual taxable income exceeds 3.0 (three) billion togrogs, it shall be 300.0 (three hundred) million togrogs plus 25 (twenty five) percent of income exceeding 3.0 billion togrogs.

17.2. Taxpayer's income shall be taxed at the following rates:

17.2.1. Income from dividend at 10 (ten) percent;

17.2.2. Income from royalty at 10 (ten) percent;

17.2.3. Income from gaming and lottery set forth in Article 16.6 of this law at 40 (forty) percent;

17.2.4. Income from sale or rental of erotic publication, book, and video recording and erotic performance at 40 (forty) percent;

17.2.5. Income from sale of immovable property at 2 (two) percent;

17.2.6. Income from interest at 10 (ten) percent;

17.2.7. Income from sale of right at 30 (thirty) percent;

17.2.8. If a representative office of a foreign company transfers its profits overseas, the transferred income at the rate of 20 (twenty) percent;

17.2.9. Following income of a non-resident-taxpayer earned in Mongolia shall be taxed at the rate of 20 (twenty) percent:

a) Dividend income received from a corporate entity registered and operating in Mongolia;

- b) Loan interest and guarantee payments;
- c) Income from royalty, leasing interest, payment for administrative expenses, rent, management expenses, and income from use of tangible and intangible asset;
- d) Income from goods sold, work performed and services provided in the territory of Mongolia.

SECTION SIX

Tax Exemption and Credit

Article 18. Tax exemption

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

- 18.1.1. Interest of government notes payable (bond);
- 18.1.2. Income set forth in Articles 17.1, 17.2.1 of this law earned by a non-resident taxpayer operating in the territory of Mongolia under a product-sharing contract in oil industry and derived from sale of its share of product;
- 18.1.3. Income of a cooperative earned from sale of its member's products through intermediary services.

18.2. If a taxpayer set forth in Article 18.1.2 of this law transfers abroad the tax-exempt income earned from sale of its product share, the income shall be exempt from tax set forth in Article 17.2.8 of this law.

Article 19. Tax credit

19.1. Income generated from production and planting of the following products only shall be subject to 50 (fifty) percent tax credit:

- 19.1.1. Cereal, potatoes, and vegetables;
- 19.1.2. Milk;
- 19.1.3. Fruits and berries;
- 19.1.4. Fodder plants.

19.2. Investment tax credit equal to 10 (ten) percent shall be granted for investments made in priority sectors of Mongolia after January 1, 2007.

19.3. Tax credit specified in Article 19.2 of this law shall be granted for investments made in depreciable non-current assets with the purpose of starting new production and services or expansion, renovation of existing production and services in the priority sectors of Mongolia.

19.4. Tax credit set forth in Article 19.3 of this law shall not be granted for asset purchase with the purpose of producing revenues other than main business operations.

19.5. If tax credit set forth in Article 19.2 of this law exceeds the amount of total tax imposed under Article 17.1 of this law in a given year, the excess shall be credited in three subsequent profitable years.

19.6. Tax credit set forth in Articles 19.1 and 19.2 of this law shall to be granted from the commencement of main business operations of a corporate entity.

19.7. Government shall approve a list of priority sectors set forth in Article 19.2 of this law.

19.8. Tax credit shall be granted to a corporate entity that employs handicapped persons who lost over fifty percent of their ability to work. The credit shall be determined by the percentage of the handicapped in the total number of the employees.

19.9. Tax credits for a corporate entity taxed in a foreign country shall be determined by bilateral agreements on double taxation and prevention of tax avoidance.

Article 20. Loss carryforward

20.1. Tax statement loss is an excess of total expense specified in Article 12 other than those specified in article 15 of this law deducted from gross taxable income.

20.2. The loss specified in Article 20.1 of this law shall be deducted from taxable income of two subsequent years since the loss incurred.

20.3. The annual amount of loss deductible from taxable income as provided in Article 20.2 of this law shall not exceed 50 (fifty) percent of taxable income in a given tax year.

20.4. The loss specified in Article 20.1 of this law shall not apply to tax statement losses incurred prior to January 1, 2007.

CHAPTER SEVEN

Tax Imposition, Payment to Budget, and Reporting

Article 21. Tax payment and reporting

21.1. A taxpayer shall accurately determine its income and payable tax to state budget based on its quarterly and yearly tax statements calculated on accrual basis.

21.2. "Tax year" is a calendar year when income and expenses are incurred.

21.3. Taxation authority shall deliver monthly and quarterly tax schedules in a given tax year to taxpayers based on schedules approved by the Central administrative authority in charge of finance.

21.4. A taxpayer shall pay taxes in advance by the 25th of each month in accordance with the payment schedule set forth in Article 21.3 of this law and submit its quarterly tax statement by the 20th of the first month of the following quarter and annual tax statement by February 10th of the following year to the corresponding tax authority finalizing all dues.

21.5. A withholder set forth in Article 4.1.6 of this law shall withhold taxes imposed on income set forth in Articles 17.2.1-17.2.3 and 17.2.7-17.2.9 of this law and transfer it to the budget within 7 working days.

21.6. A withholder shall withhold tax imposed on income from sale of immovable property and transfer the withholding to the budget within 10 working days following the sale of the property.

21.7. A withholder shall prepare and submit the withholding tax statement set forth in Articles 21.5 and 21.6 of this law by the 20th of the first month of the following quarter on a quarterly basis and annual statement by February 10 of the following year to the corresponding tax authority.

21.8. The state shall be entitled to mobilize dividend and profits from its property entirely or partially to the state budget and the amount thereof shall be determined by the Government.

CHAPTER EIGHT

Other

Article 22. Entry into Force

22.1. This law shall come into force as January 1, 2007.

SPEAKER OF THE PARLIAMENT OF MONGOLIA
NYAMDORJ. TS