



## Open talks on taxation



### The Proposed Personal Income Tax Law Part 2: More about the Law

In addition to the changes in rates, the proposed personal income tax law is also changed to more broadly incorporate the variety of income sources available to individuals and to bring the law in accordance with some commonly recognized international practices. Accomplishing this will permit the government to better monitor and improve the national economy. Among these changes are the following:

- An article on definitions is added in order to ensure common understanding of some terms so that all taxpayers will pay personal income tax appropriate to their own situation. In particular, the article provides specific definitions of families and individuals with livestock. Additional definitions are provided for foreign-earned income and withholder to clarify the concepts and responsibilities.
- Currently, the law on corporate income tax calls for a tax rate of 40% on income from gambling, quizzes and lotteries, while the law on personal income tax provides for a tax rate of only 10%. The increase in this tax rate in the personal income tax law to 30% is intended to narrow the difference between the two; this will reduce the benefit of conducting such activities as individuals and thus remove the encouragement for such activities to be conducted as legal entities rather than as individuals.
- The proposed law more effectively distinguishes between resident and non-resident taxpayers, and clarifies that a foreign national or stateless person residing in Mongolia for 183 days or more within a continuous twelve month period is considered a resident taxpayer. This is an extremely important segregation, as all resident taxpayers must pay tax on world-wide income. Non-resident taxpayers must pay income tax on only that portion of their income that comes from sources within Mongolia.
- For the first time, the law categorizes income by the nature of its source. The basic categorization is as either earned or unearned, with unearned basically representing income other than salaries, wages and other forms of income earned through personal effort (e.g. artistic performances, prizes, and incentives). Unearned income is categorized as either property income or property movement income. Property income comes from leases, royalties, interest, etc., while property movement income is that arising from the sale of property, whether immovable, movable, or stocks and securities.
- The proposed law will incorporate indirect income, representing those payment and benefits provided to employees in addition to their basic wages, salaries and bonuses. Examples of these are payments for entertainment and clinic services, apartment usage, and use and ownership of vehicles. But, while providing for this category, government does not want to place an undue tax burden on citizens, so this income is considered tax-exempt.
- Some companies pay their employees food or transportation allowances in lieu of wages or salaries. This practice is followed to lessen the tax burden on employees. To ensure that all companies and individuals are treated consistently, the proposed law prohibits this practice, and incorporates such payments into taxable income. However, in the proposed corporate income tax law, such payments will now be deductible for the companies.

All taxpayers are encouraged to review the laws, currently available to the public on:

[www.open-government.mn](http://www.open-government.mn) (in both Mongolian and English), and [www.parl.gov.mn](http://www.parl.gov.mn) (Mongolian only). Also, these weekly tax briefings are posted on a variety of websites in addition to those shown below. Several of these sites provide the opportunity to give feedback and review discussions. Citizens are encouraged to visit the sites and review the comments and offer their own opinions.

---

This briefing is the tenth of a series published by the Public Affairs Offices of the Ministry of Finance and the National Department of General Taxation as part of a program of consultations and communications with all Mongolians regarding the tax proposals being considered. Electronic versions can be found of these briefings can be found at The Open Government website ([www.open-government.mn](http://www.open-government.mn)), the Ministry of Finance website ([www.mof.pmis.gov.mn](http://www.mof.pmis.gov.mn)) and the NDGT website ([www.mta.mn](http://www.mta.mn)).