



Open talks on taxation



The Proposed Corporate Income Tax Law The Concepts

The proposed corporate income tax law was developed with the view of improving the current economic entity and organization income tax system with a view of maintaining macroeconomic stability. Government believes that this is accomplished by drafting a complete new law that is more straightforward and comprehensive. A new law is necessary as the current law, approved in 1992, has been amended almost 20 times, is complicated and is, in some cases, ambiguous.

The proposed law will:

- Provide definitions of terms used throughout the law to ensure consistency of understanding and usage. The current law lacks a definitions article, which causes confusion among taxable entities.
- Focus more on what expenses are deductible when calculating taxable income, rather than on what expenses are not deductible. The proposed law also permits business to deduct certain expenses that are currently either of limited deductibility or are wholly non-deductible. For example, bonuses and allowances paid to employees, including those for housing, meals, transportation and fuel would be deductible under the proposed law. Voluntary insurance payments would be deductible, but would be limited to 15% of taxable income. Advertising and marketing expenses, currently limited to 10% of net taxable income is fully deductible under the proposed law.
- Leave the current tax rates of 15% and 30% in place, but would raise the threshold for the 30% rate from 100 million MNT to 500 million MNT. This change is intended to encourage growth of individual business entities, thus creating more opportunities for job growth and expanding the tax base. The current threshold effectively discourages this and businesses often attempt to avoid rising into the 30% tax bracket. Given the current structure of the Mongolian economy, with the overwhelming prevalence of small businesses, this move would effectively create a single tax rate for the vast majority of businesses.
- Repeal, for the most part, the numerous tax holidays, credits and exemptions in the current law, recognizing that these tend to be economically inefficient, inequitable and impossible to enforce. In order to ensure equity among the span of businesses, both domestic and foreign, the holidays, credits and exemptions are replaced with an investment tax credit. This will be available to all businesses in the priority sectors. Under the proposed law, the only exemptions and credits will be those available to entities engaged in manufacturing cereals, potatoes and vegetables, and also those entities employing substantial numbers of disabled individuals.
- Lastly, the title of the law is changed. The current law incorporates only economic entities and organizations; referring to only for-profit entities. The proposed law is titled “Legal Entity Income Tax Law,” and segregates for-profit and not-for-profit entities. This serves to comply with the newly amended Civil Code, and ensures that all legal entities are considered under the law, regardless of their status.

Next week’s tax briefing will provide more detail on the proposed corporate income tax, with itemizations of certain articles.

All taxpayers are encouraged to review the laws, currently available to the public on: www.open-government.mn (in both Mongolian and English), and 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 eleventh 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), the Ministry of Finance website (www.mof.pmis.gov.mn) and the NDGT website (www.mta.mn).