



Open talks on taxation



Taxes and Assets Depreciation

All businesses need assets to operate. Some assets, for example, inventory, materials and supplies, and cash, are quickly consumed, so the treatment for tax is easy. But large physical assets, including buildings, equipments and computers, can last for years. So how to deduct the expenses for these long-lasting and expensive items?

The answer is depreciation. Businesses record the total cost of the asset and then deduct a portion of the cost each year. This process effectively permits the revenues produced during the year to be more accurately matched by the costs associated with the taxable revenues. Thus, depreciation is really only a method of cost allocation between tax periods.

To keep this process as simple as possible, depreciation for tax accounting will generally use fewer asset categories than the requirements for financial accounting. Financial accounting requires businesses to use the projected actual useful life of an asset, and in some cases, to calculate depreciation using the productive capacity of an asset rather than its life in years.

As is evident, the depreciable life permitted by the tax law can have a substantial effect on the deductible expense associated with an asset, so much care is taken in developing a schedule of useful lives for tax purposes. The intent is not truly to accelerate depreciation (although this is the case in the tax laws of some countries), but rather only to be certain that the useful life for tax purposes does not exceed the actual projected life. If that were the case, businesses could not deduct the entire cost of an asset until after the asset had been totally consumed.

The following table presents the depreciable lives of most of the assets included in the current and proposed legal entity income tax laws. The proposed law is not substantially different from the current, although there have been some changes made to accommodate the current business environment in Mongolia.

Asset Category	Depreciable Life (Years)	
	Current	Proposed
Buildings	40	40
Machinery and equipment, including transportation equipment	10	10
Computer hardware and software	5	5
Intangible assets with an unknown life	Not addressed	10
Intangible assets with a known life (e.g. mining licenses)	Not addressed	Actual life
Production and social infrastructure assets established by a mineral resources license-holder	Not addressed	Actual useful lives
Other fixed assets	10	10

This briefing is the thirteenth 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 of these briefings and draft laws 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). Also, these weekly tax briefings are posted on a variety of websites in addition to those shown above. 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.