



## Open talks on taxation



### “WHAT IS A GOOD TAX SYSTEM?”

What is generally viewed as a “good” tax system? Keeping in mind that nobody enjoys paying taxes of any sorts, it must be understood that taxes are a major source of revenues for governments, and that governments are responsible for providing the social and physical infrastructure that society desires. If not for tax revenues, we would not have our schools, hospitals and roads.

The philosophy behind a “good” tax system must be equitable and simple. It must be designed to provide for:

- Horizontal equity, meaning that individuals with comparable incomes pay comparable levels of taxes; and
- Vertical equity, meaning that individuals with higher levels of income pay a higher level of taxes than those with lower levels of income.

And it must be noted that, despite the fact that businesses are taxed, all taxes are ultimately paid by individuals. Businesses really serve only as collection points for taxes, by including them in prices they charge. This being the case, it is desirable that the tax rates be low, and that the tax base be large. The tax base is the most when all individuals and business operate in the formal economy and pay their fair share of taxes. Special tax exemptions, tax holidays, or evading the formal economy all serve to lower the taxable base, thereby increasing the tax burden for others.

A “good” tax system would be simple to administer. The law, rules and regulations must be available to all, easy to understand, and uncomplicated to calculate. Excessive effort must not be required to prepare tax information, or to collect taxes for government. Complicated tax laws create a situation that is costly to both the taxpayer and the government. Such complex laws are difficult to administer and inefficient to collect.

Poorly written tax laws also encourage business to avoid taxes and/or distort their ability to make sound business decisions. One example of this is the two-tier structure of the tax rates for business. To avoid moving into the higher tax bracket, some companies operate with a number of small subsidiaries. This causes a loss of critical economic mass, thus reducing the opportunities for an increased number of jobs.

Parliament will be discussing revisions and amendments to Mongolian tax laws in this Fall Session. The philosophies above will be some of the many that must be considered.

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