



Open talks on taxation

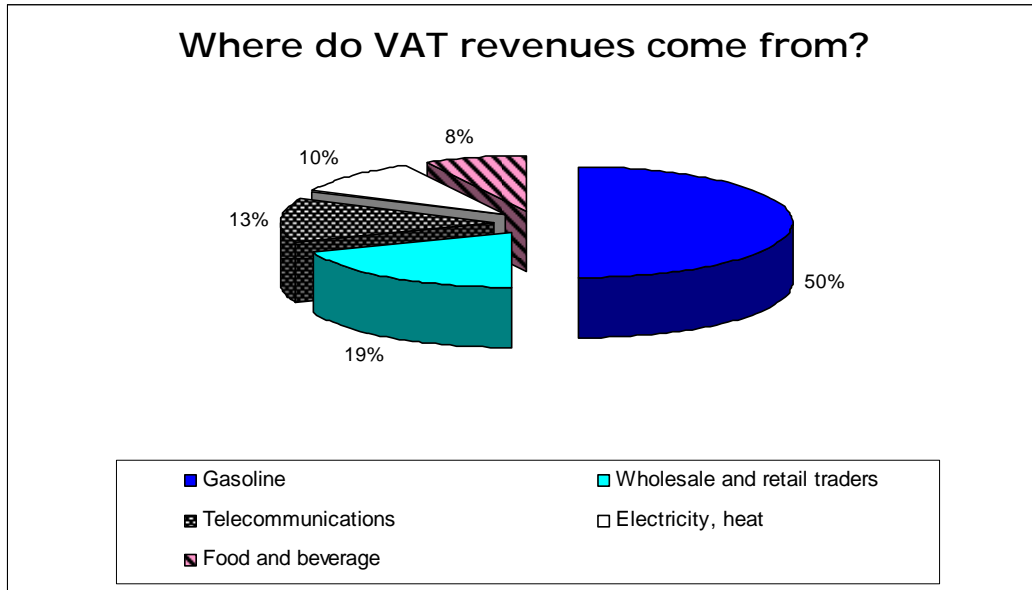


Value-Added Tax in Mongolia

<p>What is VAT?</p>	<p>VAT is a tax on consumption of goods and services. For goods, VAT is imposed and paid at each step of the manufacturing process: purchase of raw materials, processing of the raw materials, wholesaling of the goods, and retailing of the goods. The name of the tax comes from this concept as each of these steps “add value” to the ultimate product. For services, VAT is generally computed only at the point of sale to the final consumer. These businesses and individuals all pay the tax as part of the purchase price of the product.</p> <p>When producers or wholesalers purchase raw materials, semi-finished, or finished goods, they must pay the VAT at the time of the purchase. When they sell the goods, again whether semi-finished or finished, they collect VAT from the purchaser. The net difference between the VAT they have collected from purchasers and the amount of VAT they paid to suppliers is the amount they must submit to the government. As a result, each entity that adds value to the product pays VAT on its own portion of the value added. An example of this is shown below.</p> <p>Because computation of VAT is complicated and time-consuming, only larger businesses have to pay it. For the purpose of VAT, that means only those companies with annual sales revenues of 10 million MNT or more. The companies with lesser revenues are exempt. This means that they don't have to collect it from customers.</p> <p>Unlike the corporate income tax, regardless of the size of the entity there is only one basic VAT rate (15%). Like other countries, there are certain other provisions and exemptions within the law that are designed to encourage and support various consumers and producers.</p>																														
<p>VAT revenue and rates</p>	<p style="text-align: center;">Annual Government VAT Collections in Millions of MNT</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th rowspan="2"></th> <th rowspan="2">Total Collections</th> <th rowspan="2">Share of Total Income</th> <th colspan="2">2004 Payments</th> <th colspan="2">Share of VAT Collections</th> </tr> <tr> <th>At the Border</th> <th>Within the Border</th> <th>At the Border</th> <th>Within the Border</th> </tr> </thead> <tbody> <tr> <td></td> <td>179.4 Billion</td> <td>26%</td> <td>133.7 Billion</td> <td>45.7 Billion</td> <td>75%</td> <td>25%</td> </tr> </tbody> </table> <p>Because most of Mongolia's consumer goods are imported, it follows that most of the VAT is actually collected at the border. The share of total income is based on total Government revenues in 2004 of 686,689 Million MNT.</p> <p style="text-align: center;">VAT Rates in Other Countries</p> <table border="1" style="width: 100%; border-collapse: collapse;"> <thead> <tr> <th>Country:</th> <th>Germany</th> <th>China</th> <th>Norway</th> <th>Singapore</th> <th>Korea</th> </tr> </thead> <tbody> <tr> <td>Rate:</td> <td>16%</td> <td>17%</td> <td>25%</td> <td>5%</td> <td>10%</td> </tr> </tbody> </table>		Total Collections	Share of Total Income	2004 Payments		Share of VAT Collections		At the Border	Within the Border	At the Border	Within the Border		179.4 Billion	26%	133.7 Billion	45.7 Billion	75%	25%	Country:	Germany	China	Norway	Singapore	Korea	Rate:	16%	17%	25%	5%	10%
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What produces the most VAT revenue?

One-half of all VAT revenue comes from gasoline. Another 19% is collected from retail stores, 13% comes from telecommunications, and 10% comes from electricity and heat sales. Finally, 8% of total VAT collections are taken at the restaurant counter.



How is VAT computed and paid?

1. The manufacturer buys the raw materials for 1000 MNT. Including 15% VAT, the manufacturer pays 1150 MNT to the seller. The seller pays the government the additional 150 MNT.
2. The manufacturer uses the raw materials in production, along with labor and overheads and sells the product to a wholesaler for 4000 MNT. The wholesaler pays the manufacturer 4600 MNT, including the 15% VAT.
3. The wholesaler then sells the product to a retailer for 6000 MNT; with the VAT the retailer pays the wholesaler 6900 MNT.
4. The retailer charges the consumer 9600 MNT including the 15% MNT (8000 MNT plus 1600 MNT). 1600 MNT of this is the government's, but this is the total from all of the suppliers. The retailer and the other suppliers can deduct all of the VAT they paid so 1600 MNT is the total amount the government receives from this product.
5. The government receives 150 MNT from the raw materials supplier, 450 MNT (600 MNT – 150 MNT) from the manufacturer, 300 MNT (900 MNT – 600 MNT) from the wholesaler, and 700 MNT (1600 MNT - 900 MNT) from the retailer. The sum of these VAT payments is 1600 MNT, or 15% of the consumer's purchase price of 8000 MNT.

This briefing is one 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).