

**Mongolian Economic Entity Income Tax Law**  
**Comparison of Existing Law and Version Passed 29 June 2006**

	<b>Current Law</b>	<b>29 June 2006</b>
<b>Taxpayers</b>	<ul style="list-style-type: none"> <li>• Companies, cooperatives, partnerships, foreign companies and joint ventures in Mongolia</li> <li>• Foreign company representative office</li> <li>• Banks, credit or insurance companies and similar entities</li> <li>• Non-governmental organizations</li> <li>• Religious organizations</li> <li>• State and municipal legal entities</li> <li>• Non-resident legal entities</li> <li>• Any legal entity other than those described above</li> </ul>	<ul style="list-style-type: none"> <li>• Domestic and foreign companies, partnerships, and cooperatives</li> <li>• Enterprises with state and local property registered with the state register that conduct business activities</li> </ul>
<b>Resident</b>	Not defined	<ul style="list-style-type: none"> <li>• Economic entity formed within the laws of Mongolia</li> <li>• Foreign economic entity with headquarters in Mongolia</li> </ul>
<b>Non-resident</b>	<ul style="list-style-type: none"> <li>• Foreign economic entity conducting activities via a representative office: <ul style="list-style-type: none"> <li>○ Permanent location through which the taxpayer carries out commercial activities</li> <li>○ Construction site, installation project or related supervision activities</li> <li>○ Equipment, machinery or construction or related supervision activities for the purpose of searching for natural resources</li> <li>○ Location for commerce or service activities</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Foreign economic entity conducting activities via a representative office: <ul style="list-style-type: none"> <li>○ Branch</li> <li>○ Plant</li> <li>○ Trade/service provider</li> <li>○ Oil well, gas well, mine</li> </ul> </li> <li>• Foreign economic entity otherwise earning income in Mongolia</li> </ul>
<b>Residency Effects</b>	<ul style="list-style-type: none"> <li>• Representative office income is taxed only on income earned in the territory of Mongolia</li> <li>• Foreign income of other taxpayers not specifically discussed</li> </ul>	<ul style="list-style-type: none"> <li>• Resident taxpayers are taxed on domestic and foreign income</li> <li>• Non-resident taxpayers are taxed only on income earned in the territory of Mongolia</li> </ul>
<b>Related Parties</b>	<ul style="list-style-type: none"> <li>• Not discussed, although there is a general provision for revaluing transactions priced at below market value</li> </ul>	<ul style="list-style-type: none"> <li>• Related parties are those: <ul style="list-style-type: none"> <li>○ Holding 20+% of common stock; or</li> <li>○ With right to receive 20+% of dividends; or</li> <li>○ With right to appoint 20+% of management or otherwise able to determine policies</li> </ul> </li> </ul>

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		<ul style="list-style-type: none"> <li>• Transactions valued based on similar transactions between non-related parties (benchmark prices)</li> <li>• Methodology for establishing benchmark prices approved by Ministry of Finance</li> </ul>
<b>Gross Taxable Income</b>	Income from: <ul style="list-style-type: none"> <li>• Main and auxiliary manufacturing, work or services</li> <li>• Commercial banks and credit transactions</li> <li>• Insurance activities</li> <li>• Brokerage and stock exchange activities</li> <li>• Pawnshop</li> <li>• Disposal of immovable property</li> <li>• Disposal of movable property</li> <li>• Royalties</li> <li>• Shareholder dividends</li> <li>• Loan interest</li> <li>• Property leases</li> <li>• Commissions and gains from intermediary activities</li> <li>• Lotteries, quizzes and games</li> <li>• Interest on bank deposits or account balances</li> <li>• Foreign currency exchange</li> <li>• Other gross taxable income</li> </ul>	<ul style="list-style-type: none"> <li>• Income from activities:               <ul style="list-style-type: none"> <li>○ Production/sale of work and services</li> <li>○ Sale of rights</li> <li>○ Sale of shares and securities</li> <li>○ Quizzes, gambling and lotteries</li> <li>○ Sale /rental of erotic materials</li> <li>○ Erotic performances</li> <li>○ Income in kind</li> <li>○ Sale of intangible assets</li> <li>○ Technical, management, consulting or other services</li> <li>○ Interest and penalties for nonperformance and compensation for damages</li> <li>○ Realized foreign currency exchange rate gain</li> <li>○ Other similar income</li> </ul> </li> <li>• Income from property:               <ul style="list-style-type: none"> <li>○ Leases of movable and immovable property</li> <li>○ Royalties</li> <li>○ Dividends</li> <li>○ Interest</li> </ul> </li> <li>• Income from sale of movable and immovable property</li> </ul>
<b>Deductible Expenses</b>	<ul style="list-style-type: none"> <li>• Salaries, wages, additional wages</li> <li>• All types of inventories</li> <li>• Social and health insurance premiums</li> <li>• Amortization and depreciation</li> <li>• Regular maintenance</li> <li>• Bonus allocated for construction budgets</li> <li>• Foreign currency exchange losses</li> </ul>	<ul style="list-style-type: none"> <li>• All types of inventories</li> <li>• Salaries, wages and additional wages on which social and health insurance premiums and personal income tax are imposed</li> <li>• Social and health insurance premiums</li> <li>• Employee bonuses, incentives and allowances for housing, transport, meal and fuel</li> </ul>

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	<b>Current Law</b>	<b>29 June 2006</b>
	<ul style="list-style-type: none"> <li>• Work and services performed by others</li> <li>• Rents</li> <li>• Interest expense from loans</li> <li>• Administrative expenses fixed and set by owners</li> <li>• Taxes: <ul style="list-style-type: none"> <li>○ Excise</li> <li>○ Immovable property</li> <li>○ Transport vehicles</li> <li>○ Land and natural resource fees and payments</li> </ul> </li> <li>• Loss reserve funds of financial institutions</li> <li>• Mandatory insurance premiums</li> </ul>	<ul style="list-style-type: none"> <li>• Depreciation/amortization of non-current assets</li> <li>• Regular maintenance</li> <li>• Loan interest if loan borrowed to carry out primary and auxiliary production, work and services</li> <li>• Realized foreign currency exchange losses</li> <li>• Work and services performed by others</li> <li>• Lease payments</li> <li>• Interest portion of finance lease payments</li> <li>• Subscriptions to professional publications</li> <li>• Mandatory/voluntary insurance premiums</li> <li>• Taxes: <ul style="list-style-type: none"> <li>○ Excise</li> <li>○ Immovable property</li> <li>○ Windfall profits</li> <li>○ Customs duties</li> <li>○ Transport vehicles</li> <li>○ Land and natural resource fees and payments</li> </ul> </li> <li>• Accumulated loan risk funds of savings/loan cooperatives, other cooperatives, banks and non-banking financial institutions</li> <li>• Advertising</li> <li>• Employee training and retraining</li> <li>• Seed, fertilizer, livestock and animal fodder</li> <li>• Transportation</li> <li>• Short-lived and low-value assets</li> <li>• Labor safety expenses</li> <li>• Communication, stationery, cleaning and security</li> <li>• Mitigation of disaster damages in compliance with Disaster Management Law</li> <li>• Normal wear and tear of inventory</li> <li>• Environmental rehabilitation funds established in accordance with Minerals Law</li> </ul>
<b>Limited</b>	<ul style="list-style-type: none"> <li>• Marketing and training to 10% of net taxable income</li> </ul>	<ul style="list-style-type: none"> <li>• Immovable asset maintenance to 2% of book value</li> </ul>

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<b>Deductible Expenses</b>	<ul style="list-style-type: none"> <li>• Interest payments to related parties if exceeding 30% of creditor capital</li> </ul>	<ul style="list-style-type: none"> <li>• Movable asset maintenance to 5% of book value</li> <li>• Voluntary insurance premiums to 15% of taxable income</li> <li>• Per diem to twice the civil servant norm</li> <li>• Interest on investor's debt exceeding three times investment</li> </ul>
<b>Non-deductible Expenses</b>	<ul style="list-style-type: none"> <li>• Undocumented expenses</li> <li>• Investment</li> <li>• Capital repair expenses (capitalize and amortize)</li> <li>• Bonuses, allowances</li> <li>• Gifts and donations</li> <li>• Reception expenses</li> <li>• Subscriptions to periodicals</li> <li>• Housing, transportation, meals and fuel allowances</li> <li>• Normal wear and tear on inventories</li> <li>• Interest on overdue loans</li> <li>• Fines and compensation for damages to others</li> <li>• Interest paid to interdependent legal entities</li> </ul>	<ul style="list-style-type: none"> <li>• For all taxpayers: <ul style="list-style-type: none"> <li>○ Expenses incurred in connection with exempt income</li> <li>○ Undocumented expenses</li> <li>○ Expenses subject to withholding when tax was not withheld</li> <li>○ Finance lease payments</li> <li>○ Fines and penalties</li> <li>○ Interest payments to controlling resident individual</li> </ul> </li> <li>• For non-resident taxpayers: <ul style="list-style-type: none"> <li>○ Expenses incurred out of Mongolia</li> <li>○ Management/administrative expenses not related to producing income</li> </ul> </li> </ul>
<b>Depreciation and Amortization</b>	<ul style="list-style-type: none"> <li>• Straight-line method in accordance with schedule <ul style="list-style-type: none"> <li>○ Buildings: 40 years</li> <li>○ Machinery and equipment: 10 years</li> <li>○ Special purpose machinery and equipment, including mining equipment: 5 years</li> <li>○ Other assets: 10 years</li> </ul> </li> <li>• Land and inventories not depreciable</li> </ul>	<ul style="list-style-type: none"> <li>• Straight-line method in accordance with schedule <ul style="list-style-type: none"> <li>○ Buildings: 40 years</li> <li>○ Machinery and equipment: 10 years</li> <li>○ Computers and software: 3 years</li> <li>○ Other assets: 10 years</li> <li>○ Intangible assets: 10 years or useful life</li> </ul> </li> <li>• Depreciable value includes balance of maintenance expense over limitations</li> <li>• Mining production and social infrastructure assets over useful life</li> <li>• Unused assets are assumed sold</li> <li>• Includes assets under financial lease</li> <li>• Interest during construction is capitalized</li> </ul>

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		<ul style="list-style-type: none"> <li>• Land and inventories not depreciable</li> </ul>
<b>Rates</b>	<ul style="list-style-type: none"> <li>• 15% on first 100 million MNT/ 30% on balance</li> <li>• Dividends 15%</li> <li>• Royalties 10%</li> <li>• Lotteries, quizzes and games 40%</li> <li>• Video/audio rental and sale 40%</li> <li>• Disposal of immovable property 2% of gross</li> <li>• Bank deposit interest 15%</li> <li>• Non-resident legal entity's Mongolia source income 20% <ul style="list-style-type: none"> <li>○ Dividends</li> <li>○ Loan interest and fees</li> <li>○ Royalties, rents</li> <li>○ Technical and other services</li> </ul> </li> <li>• Foreign entity's income transferred abroad 20%</li> <li>• Religious organizations 20%</li> </ul>	<ul style="list-style-type: none"> <li>• 10% on first 3 billion MNT/ 25% on balance</li> <li>• Dividends 10%</li> <li>• Royalties 10%</li> <li>• Quizzes, gambling and lotteries 40%</li> <li>• Sale /rental of erotic materials 40%</li> <li>• Erotic performances 40%</li> <li>• Gift or disposal of immovable property 2% of gross</li> <li>• Interest 10%</li> <li>• Sale of rights 30%</li> <li>• Foreign entity's income transferred abroad 20%</li> <li>• Non-resident Mongolian income 20%, including: <ul style="list-style-type: none"> <li>○ Dividends</li> <li>○ Interest</li> <li>○ Royalties, rents, leases</li> <li>○ Payment for management and administrative expenses</li> <li>○ Goods and services sold in Mongolia</li> </ul> </li> </ul>
<b>Exempt Income</b>	<ul style="list-style-type: none"> <li>• Government bond interest</li> <li>• Member/supporter dues and donations to NGOs.</li> <li>• Social insurance and care funds</li> <li>• Income of the Bank of Mongolia</li> <li>• Income of public benefit NGOs</li> <li>• Expenses of business entities for construction or maintenance of roads</li> <li>• Foreign oil companies with production-sharing contracts</li> <li>• Foreign investor's reinvested dividends</li> </ul>	<ul style="list-style-type: none"> <li>• Government bond interest</li> <li>• Oil production-sharing income for non-resident taxpayers</li> <li>• Cooperative income for intermediary services</li> </ul>
<b>Tax Credits</b>	<ul style="list-style-type: none"> <li>• Production of cereals, potatoes and vegetables 50% exempt</li> <li>• Proportionate credit based on the percentage of disabled employees to total number of employees</li> </ul>	<ul style="list-style-type: none"> <li>• Production of cereals, potatoes and vegetables, milk, fruits and berries and fodder plants 50% exempt</li> <li>• 10% Investment tax credit with 3 year carryforward provided investment is: <ul style="list-style-type: none"> <li>○ Non-current asset</li> </ul> </li> </ul>

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		<ul style="list-style-type: none"> <li>○ For purpose of starting new production or expanding or renovating existing production in priority sectors</li> <li>○ Made subsequent to 1 January 2007</li> <li>• Proportionate credit based on the percentage of disabled employees to total number of employees</li> <li>• Foreign tax paid if country is party to a double taxation treaty with Mongolia</li> </ul>
<b>Loss Carryforward</b>	Not discussed	<ul style="list-style-type: none"> <li>• Tax statement loss carried forward to two subsequent years: <ul style="list-style-type: none"> <li>○ Annual amount used may not exceed 50% of taxable income in the tax year</li> <li>○ Lost must be incurred subsequent to 1 January 2007</li> </ul> </li> </ul>
<b>Tax Holidays: 10 years 100%, 5 years 50%</b>	<ul style="list-style-type: none"> <li>• Foreign invested companies: <ul style="list-style-type: none"> <li>○ Power and thermal plants</li> <li>○ Transmission networks</li> <li>○ Airway and engineering constructions</li> <li>○ Telecommunications networks</li> <li>○ Construction of energy sources and networks</li> <li>○ Renovation of technology</li> </ul> </li> <li>• Income to the extent of entity's investment in: <ul style="list-style-type: none"> <li>○ Energy sources and networks</li> <li>○ Technology renovation</li> </ul> </li> </ul>	None
<b>Tax Holidays: 5 years 100%, 5 years 50%</b>	<ul style="list-style-type: none"> <li>• Foreign invested companies: <ul style="list-style-type: none"> <li>○ Oil and coal</li> <li>○ Metallurgy</li> <li>○ Chemical production</li> <li>○ Machinery</li> <li>○ Electronics</li> <li>○ Gas fuel activities</li> </ul> </li> </ul>	None
<b>Tax Holidays: 3</b>	<ul style="list-style-type: none"> <li>• Entity with foreign investment that exports more than</li> </ul>	None

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<b>years 100%, 3 years 50%</b>	50% of production	
<b>Tax Holidays: 1 year 100%, 2 years 50%</b>	Applicable to specified aimag development activities	None
<b>Tax Holidays: 1 year 100%, 2 years 75%</b>	Applicable to specified aimag development activities	None
<b>Tax Holidays: 2 year 100%, 1 years 50%</b>	Applicable to specified aimag development activities	None
<b>General</b>	<ul style="list-style-type: none"> <li>• Taxes due monthly in advance by the 25<sup>th</sup></li> <li>• Quarterly tax statements due by the 20<sup>th</sup> of following month</li> <li>• Annual tax statements due 10 February</li> </ul>	<ul style="list-style-type: none"> <li>• Tax statements must be prepared on accrual basis</li> <li>• Taxes due monthly in advance by the 25<sup>th</sup></li> <li>• Quarterly tax statements due by the 20<sup>th</sup> of following month</li> <li>• Annual tax statements due 10 February</li> </ul>