

TAX ADMINISTRATION IN MONGOLIA

Final Report

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PREFACE

This report has been prepared to conform to the following terms of reference:

“The Government of Mongolia is currently examining a range of ways to improve the environment for private businesses, and has identified Tax Policy and Tax Administration as a top priority in this effort...The Enterprise Income Tax, which has the most direct impact on businesses and which has a number of problematic features, is the first piece of tax legislation to be subject to review...The current EIT is a very brief document (8 pages) which leaves a great deal of discretion to individual tax inspectors in the interpretation and application of its provisions.”

Three key outputs are expected as a result of this assignment:

1. Recommended revisions in the EIT law itself;
2. Recommended text for supplementary guidelines and definitions to establish a genuine overall EIT framework;
3. Recommendations for follow-up work to be undertaken in the preparation and implementation of the new law and guidelines. This should include both work that the Government should undertake itself, and suggestions for further technical assistance, if needed.

Subsequent to the consultant's arrival in Mongolia, it was determined that no further recommendations for tax law changes, as such, were expected at this time. Rather, a review and analysis should be completed of the new tax laws presently proposed and before the Government for comment.

Also, recommendations and comments were sought on the possibility of creating a training center for tax inspectors, if funding were available.

The consultant was in Ulaanbaatar from February 28 to April 7, 2001. A draft of this report was circulated on March 28 to interested parties. The final, revised report was submitted prior to departure.

I would like to acknowledge the cooperation of Mr. L. Zorig, Director General of the GDNT for providing me comfortable office space and direction on his concerns and those of the tax administration; Mr. O. Tsogt for his initial assistance and guidance in understanding the operations of the Tax Administration; Mr. A. Tamir for whom no problem was too large or too small; and especially Mr. B. Ganhuleg whose encyclopedic knowledge of the tax laws and tax administration provided insights into the complex tax system in Mongolia.

INTRODUCTION

The purpose of this visit to Mongolia and the resulting report and recommendations was to assist the General Department of National Taxation in the administration of the business income tax. The primary method I have recommended is the preparation of formal Regulations for this tax and then using the Regs. as a basis for training and re-training of the tax inspectors. Of course, this is just one tax law and it will take time and patience to develop Regulations for the other laws already passed. However, it is a necessary step. Without Regulations the tax law is open to interpretation by each individual inspector, often with contradictory results within the same Administration.

After preparation of Regulations, the next step is using the Regs. to train the tax inspectors. I have recommended establishment of a Training Center, preferably within an academic institution, and the use of trained educators to write text books and teach the various courses required.

The first inspectors to receive this training should be in the Large Taxpayer Unit. The texts can be refined, additional views proposed, and problems resolved. The course or courses would then be available to general inspectors. I have also recommended several other changes to the LTU to strengthen its authority and capacity.

Regarding the future tax laws and regulations, I have recommended that all interpretations and explanations be coordinated by the Tax Research and Methodology Division within the GDNT.

Finally, I encourage the establishment of a permanent technical advisor position. The advisor's primary role would be act as a counter-part to the Head of the LTU. However, the advisor would also consult with the Training Center and instructors on technical problems and advise the Tax Policy Division on legal matters.

I. PROPOSED REGULATIONS TO THE ENTERPRISE INCOME TAX

The EIT or more formally the Economic Entity and Organization Tax Law of Mongolia is a short and sometimes vague document detailing the income tax obligations of companies in Mongolia. “Vagueness” is not uncommon in tax legislation and often lead to volumes of written material explaining the intent of Parliament in passing a particular statute.

The issue is how to explain and magnify the wording of the statute without changing the meaning. The most common manner adopted by Tax Administrations to explain tax laws is through the use of Regulations.

Regulations do not in any way expand on the purpose of the law nor grant to Tax Administrations additional authorities not contained in the statute. Their purpose is to explain any given Article by way of definitions, examples, illustrations, and use of non-technical terms whenever possible.

Tax Regulations are the Ministry of Finance and the GDNT’s interpretation of a particular Article. They have the force of law, but may be challenged in the Court.

The Regulations should not be written in a vacuum, because, just as the Tax Law itself, they directly impact the taxpayers. Once a set of Regulations are assembled, they should be sent to the taxpayers most affected and comments solicited. For example, if Regulations are proposed affecting the banking industry, the banks should be advised and accorded time to respond with their comments.

I have prepared a set of Draft Regulations for the Enterprise Income Tax Law. See Attachment A. This is just a draft, of course. Many more examples must be added to explain the various Articles and the GDNT interpretation thereof. I will discuss the entire numbering arrangement of Regulations under a different heading. Suffice it to say here that I have numbered the Regulations to correspond to the Tax Law itself.

I have initiated a simple numbering system which is explained later in the text. Suffice it to say that “R” refers to Regulation, the Roman Numeral denotes the type of Tax, the next number refers to the Article and Paragraph.

II. COMMENTS ON PROPOSED TAX AMENDMENTS

The Government is currently proposing several changes to existing tax laws. I have reviewed the amendments and changes and offer my comments on selected issues as attachment C of this report. I have reviewed the Business Tax Law, General Tax Law, Law on Collection, and the Criminal Tax Provisions.

I have not seen any Explanatory Notes which must accompany these proposals to Parliament. Often the Explanatory Notes are just as important as the changes, because they explain in greater detail what the current law is, what changes or amendments are proposed, and why. They are an educational tool for the Parliament, but can also be published for the general public. Furthermore, the Explanatory Notes can be incorporated into Regulations once a final bill is passed, thus providing a written record of the purpose of the Article.

III. TAX ADMINISTRATION ISSUES AND RECOMMENDATIONS

A. Coordination of Rulings and Regulations

At the present time there does not appear to be any system of order for the various tax laws and guidelines. Although most of the basic tax laws have been written and passed by Parliament here in Mongolia, there must be a system for easy identification of the various articles, regulations, etc. I propose that all the tax laws now in existence be unified under one basic law known as the Tax Code. Within the Tax Code, there will be several Titles. A proposed listing is included:

Title I General Tax Provisions

Title II Enterprise Income Tax

Title III Personal Income Tax

Title IV Value Added Tax

Title V Presumptive Tax

Title VI Excise Tax

Title VII Administrative Provisions

A separate body of work will be known as the Regulations as discussed above. The Regulations will be numbered to correspond to the Tax Law they are defining or explaining. For example, the Regulation under Enterprise Tax Law Article 5, paragraph 1 will read RII.5-1. The R indicates Regulation and the II denotes the Title. The reader knows immediately that this is a Regulation and not the actual Law and it pertains to Enterprise Tax Law, etc.

Now, who will be responsible for coordinating this body of work? I recommend the Tax Research and Methodology Division of GDNT. This Division is involved in the interpretation of the tax laws and is consulted on most major issues. I recognize that this Division does not have the Human Resources to write Regulations for the entire Tax Code. However, every day the GDNT receives written and verbal questions pertaining to the meaning or interpretation of a particular Article of the Law. When the response is provided, the Research and Methodology Division should receive a copy. This question and response method will provide over the course of a year, for example, a large volume of interpretive work which will be coordinated in one place and eventually incorporated in the final Regulations.

In addition to the Regulations, there are two other methods at the GDNT's disposal for communicating its clarification and interpretation of the tax laws: first, Rulings including Advanced Rulings; and second, Technical Advice Memoranda.

It is not uncommon for taxpayers, anticipating future business and accounting transactions, to request in advance a Ruling from the tax department on how the department will judge a particular tax event. Once the GDNT is provided all the facts

and circumstances, it should rule on the event and be bound by its decision, assuming the facts and circumstances remain the same. Once the Ruling is given, it should be common practice to delete any identifying characteristics and then publish the Ruling for all to see, particularly businesses within the same industry.

Often during an audit, a tax inspector will uncover a transaction or set of transactions that he/she is not acquainted with. The proper procedure should be for the tax inspector to request technical advice from Headquarters on how to handle the matter. Again, all facts and circumstances should be forwarded to the Research and Methodology Division for consideration. The resulting Technical Advice Memorandum can be published and/or circulated to businesses within the affected industry.

B. TRAINING OF TAX INSPECTORS

TRAINING CENTER

I consider the lack of adequate training for Tax Inspectors to be the major barrier to effective tax administration in Mongolia. The creation of a training center has already been decided and I applaud the GDNT's decision to do so. Eventually, funding permitted, the Training Center should have its own building, separate from the normal workplace of the headquarters office. It is much too distracting to be only one or two floors away from one's desk, knowing that phone messages are piling up and new assignments are accumulating throughout the day. There is a tendency to rush to one's desk at breaks and lunchtime to answer messages, thus breaking the concentration needed while attending a classroom session. Off-site training is always better. A separate facility automatically creates an academic atmosphere much more conducive to both teaching and learning.

I have discussed the issue with the President of the Institute of Finance and Economics and he has agreed, in principle, to assist in such an effort. I believe that four or five rooms could be set aside within the Institute, refurbished to meet the needs of the GDNT and other agencies within the Ministry of Finance, at a reasonable cost.

I recommend a large training room, (30 to 40) students, a smaller room for office incidentals such as copy machine, library, etc., a separate computer room, and an office for the Director and visiting professors and advisors.

A complete package of my proposals for a GDNT Training Center is attached to this report. See attachment C.

C. ORGANIZATIONAL STRUCTURE

The present Organizational Structure of the GDNT was put into place in January, 2001 and should be given a chance to work. The structure is horizontal with everyone reporting to the Director. I recommend that the Training Office be placed under Administrative Management and the Large Taxpayer Unit be raised to the level of a separate Division, reporting directly to the Director General. In the Headquarters Office, you have the Director General, Deputy Director General, and five major

Divisions: Audit, Enforced Collection, Information Management, Tax Research and Methodology, and Administration. Under this new structure, Customer Service was eliminated as a Division, although the responsibilities were handed to Collection. I do not agree with this change, and will discuss it at length under the Large Taxpayer Unit heading.

In the Aimag and District Offices, there are four functions, Audit & Assessment, Information Processing, Tax Collection, and Administration. Again, the Customer Service responsibility rests with Collection.

D. LARGE TAXPAYER UNIT

I consider the Large Taxpayer Unit (LTU) to be the most important operational function within the GDNT. For that reason it should have the most up-to-date equipment and information and the first opportunity for training of newly developed courses.

The present LTU in Mongolia is just a shell of what it should become. There are presently over 1700 designated large taxpayers. However, only 42 have been placed within the jurisdiction of the LTU and even those 42 are not the largest taxpayers in the country. Further, there are only 13 inspectors in the LTU. I understand the need to start small and build as funding and expertise grow. However, with the numbers and personnel noted above, this is not an adequate start. I recommend the addition of four or five inspectors and doubling the number of taxpayers.

In most countries, being designated as an LTU taxpayer is an honor. It means that the company is one of the driving forces of the nation's economy; it is profitable and therefore, well managed; it pays its taxes in full and on time; and receives the best service from the tax administration. By "service" I do not mean negotiated taxes. I mean immediate responsiveness to questions, a separate place to file returns and make tax payments, and a high degree of Customer Service, including being informed on a routine, scheduled basis of changes to the tax law, regulations, and rulings.

The LTU must be autonomous, but not a parallel tax system. The Head of the LTU should report directly to the Director of GDNT, and at the same time have complete control over the designated large taxpayers and the tax inspectors within the Unit. However, monthly reports must be submitted to the Director General and the Minister of Finance on the LTU activities.

Given the importance of the LTU and the taxpayers within that jurisdiction, I recommend the reinstatement of the Customer Service Function. Customer Service would be responsible receiving tax returns, answering questions, often of a complex nature, given the high economic profile of the taxpayers involved, and providing the latest literature and tax news to its customers.

I feel so strongly about the existence and importance of the LTU that I recommend a full time foreign technical advisor as a counterpart to the Head of the LTU. The advisor would also provide technical support to the Tax Research and Methodology Division in its efforts to coordinate the Regulations and Rulings, assist in the

establishment of a Training Center, and act as a technical advisor to the GDNT in general.

E. QUOTA SYSEM

Each month each inspector is expected to collect a certain amount of tax. As part of the budget process, each business entity must estimate at the beginning of the year how much tax it will pay for the tax year. The inspector then collects the proportionate share each month from a predetermined number of taxpayers. If he/she meets the quota, he/she is entitled to an award.

If an inspector cannot meet his quota with the taxpayers he is given, he often requests taxpayers to pay in advance so that he/she will be eligible to receive an award.

This system is a barrier to good tax administration. Inspectors can and should be rewarded, but the award should be based on ability, proficiency, and expertise in working collection and audit cases. Evaluation of employees should be a complex system involving many factors related to the position and performance. If the criterion is simply collecting a certain amount of tax, owed or not, professionalism in the tax administration is no longer a factor.

IV. CLOSING COMMENTS AND RECOMMENDATIONS

The General Department of National Taxation has made a good, effective beginning and I do advise drastic changes. Rather, I would prefer to see development and reinforcement of the existing structure. I have made several recommendations in the body of this report and will enumerate them here not necessarily in order of importance:

1. Preparation of Regulations to state the GDNT's interpretation and explanation of the tax laws for the benefit of the public and the tax inspectors.
2. Establish a Technical Coordinator position within Headquarters, preferably in the Tax Research and Methodology Division coordinate the writing of the Regulations, Rulings, and Technical Advice.
3. Establishment of a Training Center in an academic environment using professional instructors and a curriculum of courses specifically targeted to the GDNT's needs.
4. Strengthen the Large Taxpayer Unit, giving it complete autonomy to control the 100 largest taxpayers in Audit and Collection and add 5 more inspectors to this Unit.
5. Train the LTU inspectors first.
6. Re-establish the Customer Service position within the LTU.

7. Create a Foreign Technical Advisor position to work with the LTU as a counterpart to the Head of that Unit and to assist in coordination of Regulations and Rulings.
8. Consolidate all the tax laws into one Tax Code.

REGULATIONS ON THE ECONOMIC ENTITY AND ORGANIZATION INCOME TAX LAW OF MONGOLIA

RII.1 Purpose of the Law

This law imposes a tax on the income of Economic Entities and Organizations in Mongolia known as the Enterprise Income Tax (EIT). It also provides the rules by which the Entities are required to transfer the tax to the budget. These Regulations do not in any way expand on the purpose or administration of the EIT nor grant additional authorities not contained in the existing statute. Their purpose is to explain the various Articles of the law by way of definitions, examples, illustrations, and use of non-technical terms.

RII.2 Tax Legislation

The EIT was enacted in conformity with the provisions of the General Tax Law which entered into force January 1, 1993. Article 5-3 of that Law establishes that the income of Economic Entities and Organizations will be subject to tax.

RII.3-1 Taxpayers

The term “company” as used in this statute is all-inclusive to designate any Enterprise, foreign or domestic, situated in Mongolia and engaged in business. The term also includes partnerships, which means joint ventures, groups, cooperatives, or any organization formed for commercial gain.

The obvious example is a registered company which issues public stock for purchase by shareholders. However, the definition includes all business Entities, whether or not stock is issued. Any individual or group of individuals engaged in business activity fall within the definition of this statute.

RII.3-2 Permanent Establishment

A Permanent Establishment is any fixed place of business where a foreign company engages in activity for a profit in Mongolia. This may be a construction site, an office, a workshop or any other permanent place of doing business.

RII.4-1 Gross Income Subject to Tax

A rather detailed listing of different types of income is included herein. This listing is not exhaustive and concludes with the phrase “all other income.”

RII.4-1-1

Income from the primary activity of any company is subject to tax. For instance, the primary purpose of a cement company is the manufacturing and selling of cement. However, this company may also notice the need of its customers to have wood for footings, and door and window frames. Therefore, it may start an auxiliary business, selling these items separately. All income earned by the company, both primary and secondary is gross income subject to tax.

RII.4-1-2

All income derived by the commercial banking industry is subject to income tax. A bank is defined as any institution chartered under the laws of the Bank of Mongolia and engaged in the business of receiving deposits, making loans and exercising any other power granted by the Bank of Mongolia.

The primary source of a bank's income is earning interest on loans. However, banks also receive fees and commissions for many other services.

For example, fees can be earned from renting safe deposit boxes for individuals to keep valuables. Separate charges are made for money wire transfers between banks. Banks may earn commissions as financial consulting experts or fees for acting as appraisers in the evaluation of property.

They may also act as a guarantor for a third party in certain financial schemes, thereby earning a fee. In the foreign exchange area, they also charge a fee for converting currencies either from or to Mongolian tugrugs.

In certain instances as permitted by the Bank of Mongolia, they may engage in the selling of securities, again earning commissions on the capital gains.

RII.4-1-3

Insurance companies usually have two sources of gross income; 1) premiums from insurance contracts; and 2) investment income.

RII.4-1-4

The term, Broker, as used in this Article is defined as any person or organization acting as a middleman with respect to buying or selling of property, property rights, or services. The term property in this instance refers primarily to securities, but could mean other items or rights being transferred from one party to another for consideration, i.e. in most cases, money. Consideration could also include exchanges of property of equal value.

RII.4-1-5

A Pawnshop's primary business activity is loaning money for a fee (interest) for a definite period of time and holding items of value as collateral to insure that the loan is repaid.

For example, Company A, a pawnshop, registered with the tax office, loans an individual 50,000 tugrugs for a period of one month. As collateral for the loan, the individual places in the hands of the pawn shop owner a painting, an old family heirloom, deemed by the pawn shop owner to be valued at 50,000 tugrugs. At the end of one month, the individual returns the 50,000 plus a fee of 5,000 to the pawnshop. The 5,000 tugrugs fee is interest income to the pawnshop.

However, assuming the same circumstances as noted above, except that the individual never returns with the money. After the time specified in the contract, the pawnshop

has the option to sell the family painting at any price the market will bear. After a time, a buyer is found and pays 75,000 tugrugs for the painting. In this instance, the pawnshop has income from the sale of inventory and would record the sale as such. Selling price 75,000 less cost of goods 50,000 equals profit of 25,000 tugrugs.

RII.4-1-6

Income from the sale of real estate (land) and any improvements thereon is subject to tax. Improvements are buildings or other permanent construction on the land.

RII.4-1-7

Income from the sale of business assets is also subject to income tax when sold at a gain, excluding real estate noted in R1.4-1-6.

RII.4-1-8

Royalty income is defined as payments received from others for the right to use copyrighted material such as cultural, scientific, and technological inventions, patents, trademarks, and designs. More specific examples are books, songs, record albums, and films.

RII.4-1-9

A dividend is any distribution of property made by a company to its shareholders, out of earnings and profits. The company's Board of Directors determines the amount of the dividend. Gains from the sale of shares are also subject to income tax.

For example, Co. XYZ declares a dividend payable June 30, 2000 at 20,000 tugrugs a share. Individual A had purchased 10 shares the year before. His income subject to tax as a result of the dividend is 200,000 tugrugs.

Furthermore, on December 1, 2000 Individual A sells his shares at 25,000 a share. They were purchased at 23,000 a share. He has income of:

$(25,000\text{tgs.} \times 10) - (23,000\text{tgs.} \times 10)$ or 20,000 tugrugs.

RII.4-1-10

RII.5-1-1

This Article defines taxable income for the following types of revenue as previously listed in Article 4:

- a) Basic and auxiliary operations
- b) Commercial bank income
- c) Insurance company income
- d) Brokerage and exchange activities
- e) Pawnshop income

- f) Interest from loans
- g) Rental income
- h) Commissions and other gains from intermediary services
- i) Foreign exchange income
- j) Other income

The remaining sources of income, i.e. disposal of movable and immovable property, dividends, capital gains, lottery and game winnings, and bank interest are taxed at varying flat rates based on Article 6 of the Enterprise Income Tax Law. Refer to Regulations under RII.6 and following.

Taxable income from sources a) through j) listed above is defined as gross income less the following expenses:

a) Salaries and wages of employees

This item is defined as all reasonable compensation in cash or in kind (unless prohibited by other Articles in the Tax Law) provided to an employee for services rendered.

b) Cost of raw materials

All materials, both primary and secondary, used in producing a saleable product by the business. These costs are listed in the cost of goods sold section of the financial statement.

c) Semi-processed materials

d) Utilities

Heat, water, electricity, fuel, and oil. All items required for the effective operation of a business.

e) Spare Parts

The cost of spare parts for machinery used in the business.

f) Packaging and wrapping expenses

All expenses incurred for the protection of the finished product, including transportation of products to place of sale.

g) Social and Health Insurance Premiums required to be paid on behalf of employees

h) Depreciation

Depreciation can be defined as a reasonable allowance for the exhaustion, wear and tear, or obsolescence of property used in a trade or business or of property held for the production of income.

There are several different methods a business can use in its accounting system to compute the depreciation allowance; the straight-line method, the declining balance method, and the sum of the years-digits method.

However, for income tax purposes in Mongolia, only the straight-line method will be used to compute the depreciation allowance.

The useful life of all fixed, depreciable assets are listed in four separate categories:

<u>FIXED ASSET</u>	<u>USEFUL LIFE</u>
Building, construction	40 years
Machinery and equipment	10 years
Special purpose machinery or equipment For scientific research, experiments and Advanced technology, export or mining Production, protection of environment and Rehabilitation of natural resources, and Infrastructure.	5 years
Other assets	10 years

The basis for depreciation is the cost of the asset.

Land, animals, and inventory are not depreciable assets.

For example, Co. XYZ purchased on April 1, 1999 a building for 75 million tugrugs, and office equipment for .15 million tugrugs. It also purchased a car for 25 million tgs. On July 1 of the same year. For the tax year 1900, depreciation expense will be computed as follows:

$$\text{Building } \frac{75 \text{ million}}{40} \times \frac{3}{4} = 1.41 \text{ million}$$

$$\text{Equipment } \frac{.15}{10} \times \frac{3}{4} = .01 \text{ million}$$

$$\text{Car } \frac{25}{10} \times \frac{1}{2} = 1.25 \text{ million}$$

Total Depreciation expense is 2.87 million.

The following year, however, Co. XYZ will receive full annual depreciation computed as follows:

$$\text{Building } \frac{75}{40} = 1.88 \text{ million}$$

$$\text{Equipment } \frac{.15}{10} = .015$$

$$\text{Car } \frac{25}{10} = 2.5$$

Total depreciation expense for year 2000 is 4.53 million tgs.

i) Repairs and Maintenance

Normal repairs to building and other assets. For example, painting a wall or stairwell does not extend the useful life of the building and is therefore a current deductible expense under this heading.

Repairing a leak in the roof is deductible. Putting on a new roof extends the useful life of the building and that cost must be depreciated separately.

j) Construction of temporary building

Often times, particularly on construction sites, temporary buildings are constructed to shelter equipment, house workers, provide facilities, provide office space, etc. These temporary constructions are deductible in full in the year the cost is incurred. At the end of the construction, the buildings are torn down and removed.

However, if they are constructed in such a manner that they can be moved easily to another site and their useful life is more than one year, they must be depreciated as noted above as with other buildings.

k) Bonus for construction

If a bonus clause is written into a contract as an award for early completion, this bonus is a deductible expense. For example, if Co. ABC is awarded a contract to complete a building by July 1, 2001 and the contract calls for a bonus of 500,000 tugrugs if completed 30 or more days prior to that date, the bonus is awarded and deductible.

l) Foreign Currency losses

m) Contracts for outside providers

In certain instances, an employer will contract with an outside provider to complete particular services. These contracts are deductible as long as a written

contract or service agreement is executed. Moreover, if the payee is an individual, proper income tax must be withheld and submitted to the budget.

n) Rent Expense

o) Interest Expense

All interest paid on bank loans or loans from other businesses or individuals are deductible, provided it is documented that the proceeds from the loan are used for business purposes only and the interest rate is within the average range listed by commercial banks.

p) Administrative Expenses

Management expenses, unless determined to be non-deductible elsewhere in the tax law or regulations, are deductible in this classification. Here we are dealing with operating expenses not previously listed. For example, business travel expenses, telephone and other communications expenses, social insurance, stationery, cleaning, and cost of security guards. Administrative expenses must first be approved and budgeted by the shareholders at the beginning of the fiscal year.

q) Taxes paid on business own vehicles

r) Use of Natural Resources

Any fees required and paid for the use of land and natural resources are deductible.

s) Excise Tax

t) Compulsory Insurance premiums paid on behalf of employees

u) Bank Reserves

In the case of Commercial Banks, the loan risk reserve or bad debt reserve is deductible. The actual amount of the reserves is determined by the Banking Law and must be approved by the Minister of Finance, the Bank of Mongolia, and the GDNT.

v) Advertising and Training Expenses

Special computational rules have been created under the Tax Law for limits on the amount of expenses deductible under this category. Essentially, the maximum amount allowed as a deduction is 5 % of taxable income.

If advertising and training expenses, taken together, are less than 5% of taxable income, the entire amount is deductible.

However, if the combined costs exceed 5% of taxable income, a separate computation must be made and attached to the income tax return.

Sample Computation of Advertising and Training Expenses

A Company has gross income 10 million tgs in the year 2000. Its expenses for the year 7 million including advertising and training which amounted to 140,000 tgs. In this instance the entire amount of the advertising and training expense would be allowed because it does not exceed 5% of taxable income.

Gross income 10,000,000 – 7,000,000 expenses = 3 million taxable income

3,000,000 X .05 = 150,000 tgs. This is the maximum amount deductible. However, since only 140,000 expenses were incurred, the entire amount is can be taken as an expense.

On the other hand, consider these circumstances:

B Company has gross income of 75 million tgs. Its expenses were 52 million including advertising and training of 5 million. The computation is as follows:

Gross income 75,000,000 – 52,000,000 expenses = 23 million taxable inc.

23,000,000 X .05 = 1,150,000 maximum allowable Advertising and Training Expenses

Therefore, 5,000,000 – 1,150,000 = 3,500,000 are disallowed and must be added back into taxable income.

Revised taxable income is 23,000,000 + 3,500,000 = 26,500,000 tgs.

The following expenses are determined by the Enterprise Income Tax Law to be non-deductible for income tax purposes:

a) Investment and major repairs

By “investment” the law refers to major capital purchases of equipment and machinery. Expenditures of this nature are capital items subject to the depreciation allowance discussed above.

“Major repair” is any repair to a depreciable item which will extend its useful life for more than one year or increase the value of the property.

b) Bonuses to Employees

Although it may be standard practice to grant bonuses to employees based on certain criteria and performance, these grants are not allowable business deductions under the Tax Law.

c) Employee Allowances

Providing allowances to employees is common practice. For example, a transportation allowance, meals, housing, may all be granted, but are not deductible.

d) Normal Wear and Tear on Inventory

Although wear and tear on assets is deductible through the depreciation expense, no depreciation will be allowed for inventory items.

e) Interest on Bad Debts

Interest expense is normally a deductible business expense as noted above. However,

f) Fines and Penalties

Any penalty or fine paid due to the fault of the taxpayer is not a deductible expense. For example, Company A takes a loan from a commercial bank repayable in 60 days. Company A does not make the repayment until 90 days and must pay a penalty of 5% for the late payment. This penalty is not deductible.

Likewise, Company XYZ is engaged in construction work and enters a contract to complete a building by June 1, 2001. Subject to the contract, if the building is not completed by that date, Company XYZ will pay the owners a penalty of 5000 tgs. Per day for each day after June 1 until the building is completed. The building is finished 30 days late and Company XYZ pays a fine of 150,000 tugrugs. This penalty or fine is not deductible.

R11.5-1-2 Gain on Sale of Moveable Property

In the case of sale of moveable property, taxable income will be computed as the difference between the selling price and the adjusted basis of the asset. The adjusted basis is the original cost less depreciation allowed or allowable.

For example, ABC Company sells a tractor on July 1, 2001 for 10,000 tgs. The tractor was purchased in January of 1995 for 20,000 tgs. and allowable depreciation was taken each year. The adjusted basis and taxable gain are computed as follows:

Cost:	20,000
Less: Depreciation 1995 through 2000	(12,000)
Less: Depreciation for 2001	<u>(1,000)</u>
Adjusted Basis at time of Sale	7,000

Selling Price 10,000
Less: Adjusted Basis (7,000)
Income from Sale 3,000

It must be noted here that depreciation is a required deduction. If the company, for whatever reason, did not claim depreciation in the prior years, the allowable amount must be used in this computation.

RII.5-1-3 Gaming Winnings

The taxable income for companies engaged in the gaming business, for example, lotteries, casinos, and quizzes, is income earned less expenses including prizes awarded. Included in this category are earnings from the production and sale of video and audio cassettes.

RII.5-1-4

Taxable income from the following sources is defined as gross income:

- 1) Income from the sale or disposal of immovable property
- 2) Income from Royalties
- 3) Income from Dividends and gain on sale of shares
- 4) Income from Interest on bank deposits

RII.5-1-5

Insurance company taxable income is defined as gross income less business expenses and less the reserve fund set aside for payments to beneficiaries. The amount of the reserve is determined by the government in the Insurance Company Law.

RII.5-2 Sales Below Market

In cases where the sale of assets (movable or immovable) or the provision of services at less than market value, the GDNT will have the responsibility to adjust the amounts based on current market value.

RII.6 Tax Rates

RII.6-1-1

All taxable income listed in Article 5, subparagraph 1 of paragraph 1 as well as taxable income from the sale of movable property will be taxed at the following rates:

The tax rate on the first 100,000,000 is 15%.

All income above 100,000,000 is taxed at the rate of 40%

If Company A has taxable income from the sources noted above of 200,000,000, its income tax would be:

$$100,000,000 \times .15 = 15,000,000$$

$$100,000,000 \times .40 = 40,000,000$$

Total income tax is 55,000,000 tgs.

RII.6-1-2 Dividends and Gains from Shares Sales

These items are taxes at the rate of 15%.

RII.6-1-3 Royalties

Royalties are tax at the rate of 10%.

RII.6-1-4 Game Winnings, Lotteries, and Quizes

The tax rate on these items is 40% of taxable income.

RII.6-1-5 Immovable Property

The tax rate on the total amount received upon the sale of immovable property is 2%.

RII.6-1-6 Bank Interest

Bank interest is taxed at the rate of 15%.

RII.6-1-7 The following catagories of Taxable income from sources in Mongolia will be taxed to non-residents at the rate of 20%

RII.6-1-7-a

Dividends and gains from the sale of stock of companies registered and doing business in Mongolia. Any nonresident company, that is a company that does not have a permanent establishment in Mongolia, which sells stock or receives dividends from a Mongolian company, is taxed at the 20% rate.

RII.6-1-7-b

Interest income and security deposits from rental leasing activity

RII.6-1-7-c

Income from royalties, use of tangible or intangible property, and from rental activity.

RII.6-1-7-d

All income earned by a nonresident company for technical or other services rendered to the Government, another economic entity, or an individual is subject to the 20% rate.

RII.6-2

RII.7-1 Tax Exemptions and Credits

RII.7-1-1

Interest income earned from National Government bonds or any other debt instrument issued by the National Government is exempt from income tax.

This exemption does not apply to bonds or other debt instruments issued by Municipal Governments. It applies to the National Government only.

RII.7-1-2

Non-government organizations are not required to include in income membership fees paid by members or donations received from other entities or individuals to carry on their work. Income from normal business activity is, of course, taxable as discussed in RII.4-1-1.

As an example, Books, Inc., a registered non-government organization is in the business of publishing and selling books and pamphlets on various social issues. It has 50 members who pay 10,000 tugrugs annual membership fee in order to receive these publications at a discount. In addition, Books, Inc. received outside donations of 100,000 to carry-on its work. In the tax year it earned 1,000,000 from the sale of books and had expenses of 600,000. The computation of Gross and Taxable Income is as follows:

Earnings from Sales	1,000,000
Membership Fees	500,000
Donations	100,000
Gross Income	<u>1,600,000</u>

Less:

Membership Fees	(500,000)
Donations	(100,000)
Expenses	<u>(600,000)</u>
Taxable Income	<u>400,000</u>

RII.7-1-3 Reserved

RII.7-1-4

Companies licensed to process and sell blood and blood products are exempt from income tax on income earned in this capacity. However, income earned in all other activities by the same company is fully taxable.

RII.7-1-5

Income earned by the Social Insurance and the Social Care Fund is not taxable.

RII.7-1-6

All income earned by the Mongol Bank in whatever capacity is exempt from income tax.

RII.7-1-7 Reserved

RII.7-1-8 Reserved

RII.7-1-9

RII.7-2

Any foreign company that enters into a Product Sharing Agreement with the Government of Mongolia in the oil sector, is exempt from income tax on its share of income.

For example, XYZ Oil Co, a foreign entity registered to do business in Mongolia, signs a sharing agreement with the government to explore, process and sell crude oil. The income from its share of sales is not subject to income or withholding tax, even if the income is transferred out of Mongolia.

RII.7-3

Companies in the business of manufacturing cereals or producing and selling potatoes and other vegetables may reduce their taxable income on those activities by 50%. However, this exemption does not apply to retailers who purchase these products for resale.

For example, Food Co. is engaged in the business of producing and selling potatoes. It has three separate farms devoted solely to the growing and processing of potatoes and has contracted with several retailers to sell the product. The company's gross sales for the year is 12,000,000 tugrugs and expenses were 8,million. It's taxable income is computed:

Gross Sales	12,000,000
Expenses	<u>8,000,000</u>
Taxable Inc.	4,000,000
Less:	<u>(2,000,000)</u> Exemption
Taxable Inc.	<u>2,000,000</u>

However, if Food Co. was not able to fulfill all its contracts with its retailers and was forced to purchase potatoes from other producers, and then resell, the sales income on that portion is not subject to the exemption. If, in the example used above, 2 million of gross sales were the result of selling products purchased from another, the computation would be as follows:

a. Gross Sales	12,000,000	
b. Expenses	<u>8,000,000</u>	
c. Taxable inc.	4,000,000	
d. Inc. Not subject to exemption	<u>1,000,000</u>	
e. Balance	3,000,000	
f. Exemption 3,000,000 X 50%	<u>1,500,000</u>	
g. Balance	1,500,000	
Add: line d and line g	2,500,000	Taxable Income

RII.7-4

If a business uses its own money to construct and/or repair public roads, the cost of construction or repair is deductible from gross income.

RII.7-5-1

Business entities with foreign investment (at least 20% of initial capital) involved in any of the following activities shall enjoy complete tax exemption for the first 10 years starting with the date of production and 50% tax relief for the subsequent 5 year period:

1. Power and thermal plants and transmission thereof
2. Highways
3. Railways
4. Airway construction and engineering
5. Basic network of telecommunications

RII.7.5-2

Companies with foreign investment involved in the following activities receive a tax exemption for 5 years and 50% tax reduction for the next 5 years:

1. Mining and processing of mineral resources
2. Oil and coal
3. Metallurgy
4. Chemical production
5. Machinery
6. Electronics

RII.7-6

A company with foreign investment engaged in activities not mentioned in Article 7-5 but exports more than 50% of its production will receive tax exempt status for 3 years and a 50% tax reduction for the subsequent 3 years.

RII.7-7

The State Great Hural has the authority to grant tax preferences to business entities with foreign investment other than those noted above upon application of the company.

RII.7-8

ABC Company has 20% foreign investment and is engaged in the manufacture of glass in Mongolia. Its net profit for the tax year was 2 million tugrugs, 20% of that amount accruing to the foreign investor.

The foreign investor decides to reinvest the entire amount in the company. ABC Company is then entitled to a deduction from taxable income for $2,000,000 \times .20 = 400,000$ tgs.

RII.7-9

If Company A, a foreign investment company, is primarily engaged in

RII.7-10

In order to be eligible for the tax preferences noted in Art. 7-5, para. 1 and 2, the foreign investment company must have been started with at least 20% foreign capital. The purchase of shares of a company sold through vouchers under the Privatization Law does not entitle the company to these tax preferences.

RII.7-11

Companies involved in the construction of electricity power supply shall enjoy a tax exemption for 10 years and 50% reduction for the next 5 years.

RII.8-1

Under the self-assessment system of taxation, the taxpayer is responsible for preparing the tax return and making timely payments to the budget.

RII.8-2

A taxpayer with annual taxable income the prior year of 500,000 or more, is required to make a monthly estimated tax payment on the 25th of each month based on a pre-determined schedule. The company will also prepare and submit to the tax administration a quarterly income tax return on the 20th of the first month following the quarter. A final tax return for the previous year is due on February 10 annually.

Taxpayers with less than 500,000 the previous year will make estimates quarterly rather than monthly as noted above. Otherwise, they have the same filing requirements.

PROPOSED TAX LAW CHANGES

The General Department of National Taxation and the Ministry of Finance have proposed amendments and changes to existing tax legislation. I have been asked to comment on the amendments and changes from the view of Tax Administration. Time does not permit an in-depth analysis, but I have included my general views and ideas on the changes and amendments.

I will provide comments on the following pieces of legislation:

1. Law of Mongolia on Supervision of tax levy, payment, and tax collection
2. General Taxation Law of Mongolia
3. Economic Entity and Organization Income Tax Law
4. Criminal Tax Law

Law of Mongolia on Supervision of tax levy, payment, and tax collection

Article 4, para. 5

Comment: The new wording of this paragraph allows the Tax Administration to publicly acknowledge both trustful taxpayers and delinquent taxpayers. I would prefer no disclosure of any kind. Tax secrets must remain tax secrets, both good and bad. If the administration wants to honor trustful taxpayers, it can send a letter to the individual or enterprise, so stating. If the enterprise wants to make the letter public or display it on their premises, they have the right to do so. Delinquent taxpayers should not be pursued through the media. The Tax Administration has ample authorities to use in collecting the proper amount of tax owed. In tax evasion matters, the administration must go to the Courts with criminal charges. The matter then becomes part of public record.

Article 5, para 3.

Comment: This is a new wording, describing how the master file in Tax Administration will be set-up and maintained. I would rather see this wording in an operations manual. The problem with putting it in the law is that it cannot be changed in any way without an act of Parliament, even if the change is minor.

Article 5, para. 5

Comment: The taxpayer has 14 days to notify the Tax Office of any changes to the information contained in the master file. There is no mention of any penalties, if the taxpayer does not comply with this law.

Article 17, para. 1

Comment: This change to paragraph 1 adds the notion of using arms length pricing in estimating a taxpayer's tax liability when no tax return has been filed.

This requires more documentation on the part of the Tax inspector, but I believe it is necessary, so that any figures finally determined are based on reasonable methods that can be defended in Court if required.

Article 26

Comment: The new wording of this article provides clearer and more transparent procedures in the case of sale at auction a seized property. I recommend maintaining the new wording.

Article 32, para. 3

Comment: This new paragraph requires the Police Organization to conduct nationwide searches for taxpayers who have avoided paying taxes. I believe this authority and requirement should be limited to criminal tax cases. The Police should not be involved in civil tax cases.

Article 35, para. 1

Comment: This small change in wording is very important to tax administration. The old wording allowed a taxpayer who disagreed with a tax decision to resolve the matter in accordance with the law on citizen's complaint resolution. New wording makes it perfectly clear that tax decisions are to be resolved by tax administration or the courts. A citizen may use complaint resolution procedure only when questioning the tax inspector's possible improper activity or behavior, not a tax decision or assessment.

Article 39

Comment: This is a completely new provision allowing the Tax Administration to place a lien on property owned by a delinquent taxpayer. It states that a contract will be agreed to by all parties involved. If the taxpayer does not pay according to the terms of the contract, the property belongs to the Tax Administration and will be auctioned.

One addition I would like to see. Paragraph 1-4 states that the "owner of the property has no right regarding lien imposed property to use, to spend, to damage or to destroy." I believe the "to sell" should also be included in this paragraph.

Article 41

Comment: This is a new Article listing the administrative penalties which a tax inspector shall impose. I am in agreement with these penalties, but would like to see a little stronger wording at the beginning. I believe the tax inspector "must impose" these penalties to make them effective.

GENERAL TAXATION LAW OF MONGOLIA

Comments: The amendments to this law are divided into two separate groups: additions in the form of definitions in one group and additional authorities given to the Director General of GDNT to accomplish his mission.

In the first part, I see no problems with the definitions. However, I would have placed most of these definitions in Regulation form as opposed to putting them in the law itself. Now, adding to these definitions or changing them in any way requires changing the law as opposed to just adding another Regulation without Parliament having to act.

The second part deals with administrative matters and the authority of the Director General to manage the organization. My only concern here is that while much power and responsibility is invested in the Director General, there should also be authority for him or her to delegate certain responsibilities to the management staff.

ECONOMIC ENTITY AND ORGANIZATION INCOME TAX LAW

Comments: There are very few changes recommended to this tax law. The wool industry was added to the exemption list for 3 years and 50% tax relief for the following 3 years, provided it is a foreign company.

In fact, the only substantive change recommended to this law is to allow companies with an annual income of 1 million tugrugs or less to pay their estimated taxes quarterly. In the previous law, the cut-off was 500,000 tgs.

I believe that the requirement to file a quarterly tax return for major businesses is an onerous task with little or no justification and no tax consequences. The annual income tax return should be the one of concern to the tax inspector. The company prepares monthly and quarterly financial statements to determine how profitable the business is and what changes have to be made. However, the tax inspector should be concerned only with annual profits and the proper amount of tax being paid on that taxable income.

I would like to have seen in this set of proposals a Loss Carry Forward provision as an incentive to domestic enterprises. The first few years are usually loss years for any new business. As an incentive to stay in business, enterprises should have expectation that those loss years will not be forgotten. I would recommend the 5 year rule for carryovers which is quite common and accepted.

THE CRIMINAL LAW OF MONGOLIA

Comments: Article 227 of the Criminal Law deals with Tax Evasion. The proposal is to change the wording of the Article in an effort to strengthen the sanctions against criminal activity. Unfortunately, I find the wording vague and subject to misinterpretation. Paragraphs 1, 2, and 4 all begin, "If a large amount of taxable income is hidden..." It is unclear what a large amount of income is. Moreover, an amount may be large to one individual or company, but small to another. In these instances, the amount of the penalties is fine, but the wording about "large amount" must be defined. I recommend using a percentage, i.e. if 25% of income is hidden or unreported, etc.

Likewise, the proposed paragraph 3 appears to refer to all taxpayers. "If a taxpayer has the ability to pay tax, interest and penalty but does not do so, he/she will be fined and imprisoned." There must be other conditions here. I would propose such conditions as 1) failure to pay for 3 years; 2) fraudulent tax returns were filed; or 3) failure to file tax returns for 3 years, etc.

PROPOSAL FOR GENERAL DEPARTMENT OF NATIONAL TAX
TRAINING CENTER

GENERAL COMMENTS

One of the goals of any Tax Administration is to have in its employ, highly trained, knowledgeable, professional tax inspectors. The training of tax inspectors in the tax law, regulations, audit techniques, and collection procedures is essential to the proper functioning of any professional tax administration. To accomplish this goal, the GDNT must establish an appropriate training curriculum and methodology.

I propose the creation of a separate training center facility to be used by the GDNT, Ministry of Finance, Customs, and even other government ministries when space is available. The Training Center must be separate from other government buildings to avoid work conflict during training sessions. In fact, it should resemble more an academic institution than government or business office. For this reason, among others to be discussed, I recommend creating the Training Center within an academic environment. In fact, I have discussed this matter with the administration of the Institute of Finance and Economics and they are more than willing to cooperate in assisting in the establishment of this Center.

FACILITY

The Training Center will be comprised of five separate rooms. Ideally, all rooms would be adjacent, but it is not absolutely necessary that both classrooms be connected. I recommend two classrooms, one able to hold up to 50 students, the other, a smaller classroom holding 20 to 25 students. The classrooms will be equipped with tables and chairs (two to a table), an instructor's desk and chair, and whiteboard. The larger of the two classrooms will also need an overhead projector, laptop computer, and simultaneous translation equipment.

LIBRARY

The library will contain the following items: two tables and four chairs, bookcases, fax machine, and copy machine. This room will also be used for storage of textbooks and student supplies.

DIRECTOR'S OFFICE

The office will be the headquarters of the Training Center. It will contain desks or tables for the Director and two instructors for use in class preparation. The Director will not necessarily be on-site when the GDNT is not using the facility. He/she will have his/her own office in Headquarters as Director of Training for the entire GDNT. The Director will coordinate all training within the Center, working with a counterpart at the Institute to arrange and coordinate use of the facility by other agencies.

COMPUTER ROOM

This room will be used as a classroom for computer instruction. It will contain 15 desktop computers with Internet access, 8 printers, 15 tables and chairs, plus an instructor desk and chair and whiteboard. The computers will be available to other GDNT students for completion of assignments, access to the Internet, etc.

DIRECTOR

The Director will be responsible for arranging all training courses. He/she will hire the instructors, ensure that textbooks are written and published, solicit names of students from GDNT management, arranging for foreign instructors, when desirable, maintain current supplies of needed material, and have the authority to pay for all services rendered.

This will not be a full-time position. It will be only part of the duties required of the Director of Training. When the facility is not in use, the Director will perform his/her regular duties in the Headquarters Office.

FACULTY

There is no doubt that many experienced tax inspectors are knowledgeable enough in the tax laws to perform instructor duties at the Training Center. In the future the GDNT may wish to have certain tax inspectors trained in the art of teaching. However, in the beginning I recommend the use of present, on-site, trained professors from the Institute to cover the teaching assignments of the Center. Knowing a subject is one thing, but being able to communicate in the teaching capacity is a different matter. These professors not only have the required knowledge, they have the experience of communicating this knowledge on a daily basis. I believe the GDNT should take full advantage of this resource.

I have had the experience in other countries of using the academic community as instructors for tax administration. Many of these professors were also involved in the drafting of the tax laws themselves. In fact, many were teaching tax courses to university students in required courses for accounting, economics, and law. They had no problem adapting their material and teaching style to both new and experienced tax inspectors.

Compensation will, of course, be required and I have built these costs into the financial plan at the end of this narrative.

TEXTBOOKS

Of course, textbooks will have to be created for almost every course. I have emphasized earlier in this report the need for Regulations on existing tax laws. Once definitions are in place and the Ministry of Finance and GDNT's interpretation of the tax law is detailed, textbooks based on the law and regulations can be written.

Again, the university professors are the most capable of completing this assignment and I recommend there being used.

COURSES

Annually, a general examination is given to prospective GDNT employees. Once the papers are graded, certain individuals are hired. At this point, I would interview each new-hire. Based on his/her educational background, results of the general test, the interview, and personal preference that person should be designated as a tax inspector in audit, collection, legal, etc. and trained accordingly. There is no need to train a tax inspector in the collection division on International Accounting Standards. That inspector needs training on collection procedures.

Likewise, an audit inspector must be trained in the accounting standards, the various tax laws, and audit procedures, but not in enforced collection or bankruptcy.

As a start, I recommend that the following courses be developed and taught on a pilot basis:

Audit Tax Inspector

1. Enterprise Income Tax
2. Value-Added Tax
3. Personal Income Tax
4. Audit Techniques
5. Accounting Standards

Collection Tax Inspector

1. Collection Procedures
2. Supervision of Tax Levy,
Payment, & Tax Collection
3. Bankruptcy Law

USE OF FACILITY

As stated earlier, the Director of the Training Center will be responsible for coordinating use of the facility. He or she will be the primary contact point. Although this facility may be named the GDNT Training Center, it should be open to others, especially the Ministry of Finance, and Customs. Even with all the training necessary for the GDNT, the tax inspector's primary job is either auditing or collecting tax. There will be many off hours when the GDNT is not using the center. Therefore, it should be shared with others.

Furthermore, the Institute will designate a coordinator to work with the Director. The Institute should also be allowed to use the facilities, especially the computer room on a shared and accountable basis. These arrangements should be fairly easy to work out.

COST ESTIMATION AND FINANCIAL SUMMARY

PRIMARY CLASSROOM	UNITS	PRICE	COST
Student Table	25	250	6,250
Student Chair	50	60	3,000
Instructor's Desk	1	300	300
Instructor's Chair	1	100	100
Whiteboard	1	1500	1,500
Overhead Projector and Screen	1	1500	1,500
Laptop Computer	1	2500	2,500
Simultaneous Translation Equipment			30,000
Video Player	1	300	300
Video Camera	1	800	800
T V Set	1	500	500
One Year Supplies			20,000
Subtotal			66,750

SECONDARY CLASSROOM	UNITS	PRICE	COST
Student Table	12	250	3,000
Student Chair	25	60	1,500
Instructor's Desk	1	300	300
Instructor's Chair	1	100	100
Overhead Projector	1	1500	1,500
Laptop Computer	1	2500	2,500
One Year Materials and Supplies			20,000
Subtotal			28,900

LIBRARY	UNITS	PRICE	COST
Tables	2	250	500
Chairs	4	60	240
Copy Machine	1	5000	5,000
Fax Machine	1	200	200
Bookcases	3	150	450
Funding Books and Periodicals			50,000
Subtotal			56,390

COMPUTER ROOM	UNIT	PRICE	COST
Student Table	30	250	7,500
Student Chair	30	60	1,800
Instructor Desk	1	300	300
Instructor Chair	1	100	100
Desktop Computers	30	1000	30,000

Main Server	1		10,000
Whiteboard	1	1500	1,500
Printer	15	800	12,000
Internet Access			10,000
One Year Supplies			20,000
Subtotal			93,200

DIRECTOR'S OFFICE	UNIT	PRICE	COST
Desk	3	300	900
Chair	3	100	300
Cabinet	3	200	600
Desktop Computer	1	1000	1,000
Printer	1	800	800
Subtotal			3,600

FINANCIAL SUMMARY

Primary Classroom	66,750
Secondary Classroom	28,900
Library	56,390
Computer Room	93,200
Director Office	3,600
Instructor Costs – Writing textbooks for 7 training courses and providing classroom instruction 28 weeks	20,000
Printing of textbooks - 700	12,000
Reconstruction of facilities	25,000
Total Cost	305,840