

MONGOLIA: International Taxation Issues

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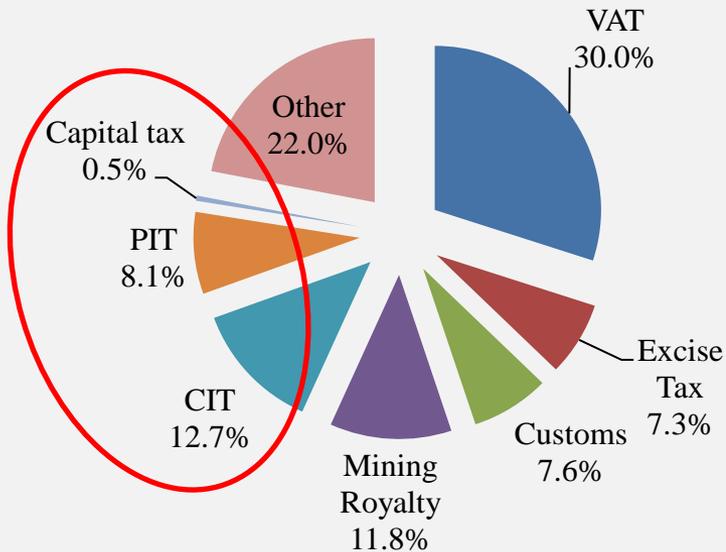
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1. Economy and Tax Revenue

Tax revenue breakdown by taxes (as of 2014)



- ❑ Income taxes make up significant part of Mongolia's Budget Revenue (21%).
- ❑ CIT: There are 94 thousand private companies currently residing in Mongolia:
 - 9% is foreign invested
 - Top 100 tax payers make up about 80% of the total CIT revenue.
 - 591 registered non profit PEs
- ❑ PIT: Registered workforce - 1.4 million (as of Jan 2015)
 - Public servants – 12.55%
 - Private – 66.5%
 - Foreign residents - 0.5%
 - Nomadic herders – 20.5%





2. Foreign investment and DTTs



Factors for increase of FDIs

Big copper, coal and gold deposits had been discovered

- Investment Agreements
- Consistent tax system
- Double Tax treaties are + factor.



Foreign direct investment has been the key for rapid economic growth

- Real GDP growth of 17% in 2011.
- Budget revenue increased substantially



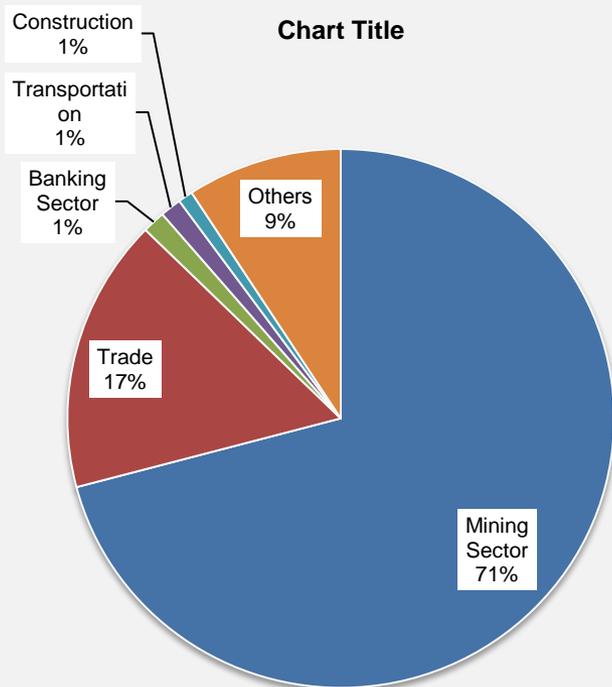
Risks

Economic dependence from international commodity prices = unstable revenue.

Increased government spending



2. Foreign investment and DTTs



**FDI breakdown by Country
(1990-2013.10.31)**

No	Country	%	Total (million USD)
1	Netherlands	29.96	4,225.3
2	China	26.65	3,757.6
3	Luxembourg	8.17	1,151.7
4	Virgin Islands	7.87	1,109.5
5	Singapore	5.14	724.9
6	Canada	3.53	498.1
7	South Korea	2.69	379.3
8	America	2.19	308.2
9	Russia	2.11	297.7
10	Australia	1.84	260.0
11	Hong Kong	1.62	228.5
12	Japan	1.47	207.1
13	Bermuda	0.91	129.0
14	Great Britain	0.83	116.7
15	Switzerland	0.73	103.1
	Others	4.29	604.4
Total FDI		100	14,101.1

- FDI to Mining sector is the biggest
- Most investments come from top 10 investing countries.
- There are no DTTs with Japan, USA, Hong Kong and Austria yet.

3. Mongolian Double Tax Treaties

Mongolian DTT timeline



- ❑ Mongolia has actively signed Double Tax Agreements with most of its major economic partners through **1991-2004**.
- ❑ This network undoubtedly has helped Mongolia to attract foreign investment.
- ❑ Mongolia terminated **4 DTTs** including Kuwait, Luxembourg, United Arab Emirates and Netherland.



3. Mongolian Double Tax Treaties

Termination of DTTS

Withholding taxes	Domestic Rates	UAE Treaty	Kuwait Treaty	Luxembourg Treaty	Netherland Treaty
Dividends	20%	0%	0% for at least 49% participation, 5% for others	15/5/0 (3)	0% for at least 10% participation, 15% for others
Interests	10% for Financial institutions, 20% for others	0%	0%	0% for financial institutions, 10% for others	0% for financial institutions, 10% for others
Royalties	20%	10%	10	5	5
Technical Service	20%	Exempted	Exempted	5	5

- ❑ The treaties became a loophole for treaty shopping and tax planning resulting unnecessary revenue loss without contributing much to inbound investment;
 - Major investors in the Mining sector had been aggressively treaty shopping
- ❑ Although the efforts to amend these treaties has undergone for about year, treaties has been terminated unilaterally;



4. Treaty Issues

Time period required for construction-pe

Time period for PE (Months)	Mongolian DTTs
3	Kuwait
6	Belgium, Canada, Germany, Indonesia, Italy, Luxemburg, Malaysia, Singapore, Switzerland, and Vietnam
9	India
12	Austria, Belarus, Bulgaria, Czech Republic, France, Hungary, Kazakhstan, PR of Korea, Korea, Kyrgyzstan, the Netherlands, Poland, Ukraine, and United Kingdom
18	China and United Arab Emirates
24	Russia and Turkey

- ❑ Construction PE is one of the more controversial subjects
- ❑ OECD and UN model generally accept 6 to 12 months of construction period
- ❑ Mongolia has 3 treaties that have over Construction period over 12 months



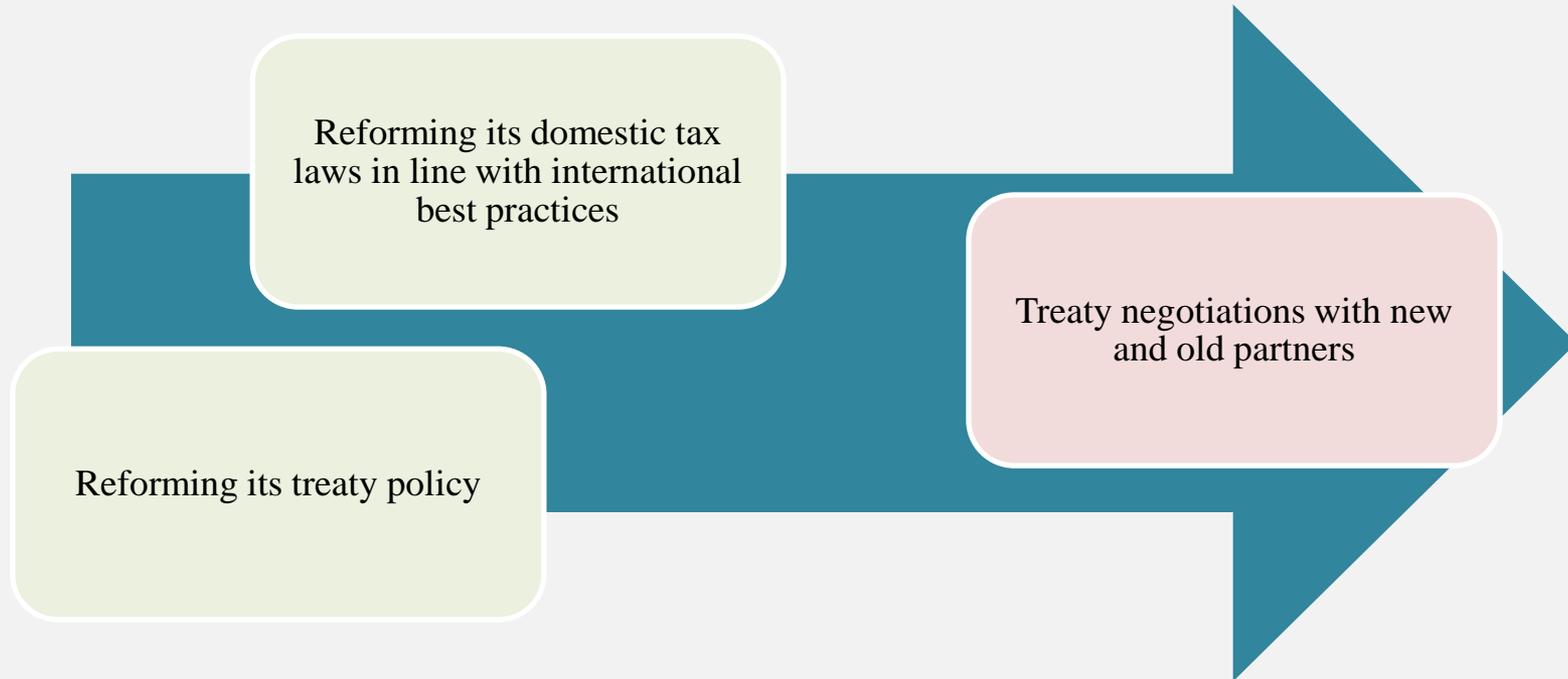
5. Treaty Issues

Overview of maximum source country taxation

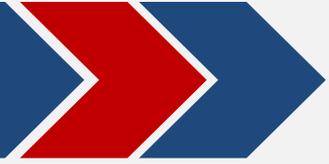
		Dividends		Interest	Royalty	Technical fees
		Non-Qualifying	Qualifying			
1	Austria	10	5	10	5/10	
2	Belarus	10	10	10	10	10
3	Belgium	15	5	10	5	
4	Bulgaria	10	10	10	10	
5	Canada	15	5	10	5/10	5
6	China	5	5	10	10	
7	Czech Republic	10	10	10	10	
8	France	15	5	10	5	
9	Germany	10	5	10	10	
10	Hungary	15	5	10	5	
11	India	15	15	15	15	15
12	Indonesia	10	10	10	10	
13	Kazakhstan	10	10	10	10	
14	Korea	5	5	5	10	
15	PR Korea	10	10	10	10	5
16	Kuwait	0/5	5	5	10	
17	Kyrgyzstan	10	10	10	10	
18	Luxemburg	15	0/5	10	5	10
19	Malaysia	10	10	10	10	10
20	Netherlands	15	0	10	5	5
21	Poland	10	10	10	5	
22	Russia	10	10	10	domestic	
23	Singapore	10	5	5/10	5	
24	Switzerland	10	5	10	5	
25	Turkey	10	10	10	10	
26	Ukraine	10	10	10	10	
27	UAE	0	0	0	10	
28	United Kingdom	15	5	7/10	5	
29	Vietnam	10	10	10	10	10



5. International Taxation policy outlook



- ❑ Government of Mongolia is currently working to reform its domestic tax laws and treaty policy.
- ❑ Once the reform is complete, Mongolia will be able to start negotiating treaties with new potential partners and amending the old treaties.



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