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# GENERAL DEPARTMENT OF TAXATION



## ADMINISTERING FISCAL REGIMES FOR EXTRACTIVE INDUSTRIES

Presenter: Mrs Tugsjargal Sereenendorj  
Senior officer , General Department of Taxation



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## OUTLINE

- ❖ Mongolia
  - Overview
- ❖ Current administration for extractive industries
  - Types of tax and Legislative framework on natural resources
  - Framework for Natural resource administration
  - Implementation of natural resource taxes
  - Tax procedure
- ❖ Issues and Challenges
  - Legal and policy framework issues
  - Procedural issues
  - Special capacity issues
- ❖ Current consideration

# 1. Overview Mongolia



**Area:** 1,566,000 sq km  
**Government structure:** Parliamentary republic  
**Religion:** Tibetan Buddhism  
**Population:** 3 Million  
**Language:** Mongolian

- Economic indicators**
- GDP 12.0 bn US\$
  - GDP per capital 4,055 US \$
  - Real GDP Growth ~ 4.4%
  - Inflation: 7.2%
  - Major industries:  
Copper, coal, livestock, cashmere, wool



## Types of tax

Mineral resources

- Mineral resources royalty
- Common mineral resources royalty
- Petroleum resources royalty

Forests, animals,  
plant and water  
resources

- Natural resources royalty



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## Legislative framework

- ❖ Mineral law
- ❖ Common mineral law
- ❖ Petroleum law
- ❖ Natural resource royalty law
- ❖ Air pollution payment law
- ❖ Water pollution payment law
- ❖ Related regulations



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## Framework for Natural resource administration

	Policy	Administration
Fiscal	Ministry of Finance	<ul style="list-style-type: none"><li>• Tax Department</li><li>• Customs Department</li></ul>
Natural resource operations	<p>Ministry of Mining</p> <p>Ministry of Environment, Green development and tourism</p>	<ul style="list-style-type: none"><li>• Mineral Resources Authority</li><li>• Petroleum Authority</li><li>• Forestry Authority</li><li>• Water Authority</li></ul>



# Implementation of natural resource taxes

Volume or weight of production	<ul style="list-style-type: none"><li>• Natural resource royalty</li><li>• Petroleum resources royalty</li></ul>
Value of sales or production	<ul style="list-style-type: none"><li>• Mineral resource royalty</li><li>• Common mineral resource royalty</li></ul>
Supply of goods and services	<ul style="list-style-type: none"><li>• Value added tax</li></ul>
Profits or gains	<ul style="list-style-type: none"><li>• Corporate income tax</li></ul>
Transactions	<ul style="list-style-type: none"><li>• License fee</li></ul>
Payments	<ul style="list-style-type: none"><li>• Withholding tax</li><li>• Land payment</li><li>• Air &amp; water pollution payment</li></ul>



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## Current tax procedures

- ❖ Registration
- ❖ Assessments
- ❖ Payments
- ❖ Audits
- ❖ Dispute resolution



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## Issues and challenges: Legal and policy framework issues

- ❖ A range of special tax provisions /loss relief, thin capitalization/
- ❖ Taxation and industry regulation, commercial roles are often confused
- ❖ Different kind of production sharing and concessionary contracts



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## Issues and challenges: Procedural issues

- ❖ Insufficient registering process /micro miners/
- ❖ Poor cooperation between departments
- ❖ Poor management of repayments, particularly value added tax
- ❖ A mixture of U.S dollar and local currency accounting
- ❖ Badly designed audit method



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## Issues and challenges: Capacity issues

- ❖ Tax administrators and inspectors are not familiar with natural resource industry processes and technical jargon
- ❖ Benchmark pricing disputes
- ❖ Not enough knowledge foreign languages used by multinational enterprises



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## Issues and challenges: Procedural issues

- ❖ Insufficient registering process /micro miners/
- ❖ Poor management of tax refund, particularly value added tax
- ❖ A mixture of U.S dollar and local currency accounting
- ❖ Badly designed audit method



## Current considerations

- ❖ To coordinate fiscal policy to development of extractive industries
  - Management of some kind of contracts /production sharing and stabilized/
  - Investment policy
- ❖ To renew and amend laws related to the natural resource taxation
  - The Mineral law
  - General law of taxation
  - Some regulations
- ❖ To improve cooperation between agencies and departments
  - Mineral resource Authority and Tax Department
  - Mining ministry and Finance ministry
- ❖ To improve and renew tax audit technique and refund management
  - To build new VAT refund procedure and to renew the regulation
  - Special procedures for tax audits



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## Actions

- ❖ Tax administration has been cooperating with international organizations such as IMF to improve our tax system for large tax payers (mainly mining).

**This was called the LTO or large tax office reform program.**



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## Actions

Measures to complete the LTO reform program

- ❖ Implement an international tax risks strategy.
- ❖ Provide large taxpayers with improved services, including more and better written guidance on how tax laws apply, full implementation of the KCM program, establish a regular consultative forum between the LTO and large businesses so as to better understand their needs and identify tax risks.
- ❖ Take stronger actions to promote good ethics and to deter and deal with malfeasance by tax officers.



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## Actions

### Measures to sustain the LTO reforms

- ❖ Update existing LTO procedures as necessary to document improved procedures introduced by the project, centralize training materials, guides and procedures created for the project, and make them available online to all MTA staff for training and reference purposes.
- ❖ Review and update the quality assurance procedures to ensure that audit acts are consistent and reflect MTA policies on how the law applies.





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# Actions

## Status of LTO reforms:

Reforms	Progress Since 2011
<b>Create the foundations for large taxpayer administration</b>	●
Restructure the LTO and increase taxpayers & LTO inspectors	●
<b>Improve the legal framework for large taxpayer administration</b>	●
Introduce a new tax administration IT system and provide the LTO with additional computer and office equipment	●
<b>Strengthen core administrative processes for large taxpayers</b>	●
Streamline tax return filing and tax payment processes	●
<b>Substantially improve taxpayer services</b>	●
Strengthen the LTO's audit strategies and methods	●
<b>Strengthen arrears collection by introducing new enforcement measures</b>	●
Create a compliance strategy for international tax risks	●
<b>Enhance the administration of large mining companies</b>	●
Introduce special arrangements for administering mining companies	●
<b>Improve performance management and integrity</b>	●
Strengthen human resource management policies and promote integrity among tax officers	●

● Mostly-Fully Achieved  
 ● Partially Achieved  
 ● Not Achieved

For Order of Management of MTA

Thank you for attention



[www.mta.mn](http://www.mta.mn)