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29 June 2006

Ulaanbaatar

BUSINESS ENTERPRISE INCOME TAX ACT

CHAPTER ONE PRELIMINARY

Section 1. Object of the Act

1.1. The object of this Act is to impose taxes on the incomes derived by business enterprises and for such taxes to be paid to the revenue and reported.

Section 2. Law

2.1. The law pertaining to business enterprise income taxation shall consist of the General Taxation Act, this Act and other secondary legislation adopted in accordance with the foregoing acts.

Section 3. Scope of the Act

3.1. This Act shall impose taxation on the incomes of the following business enterprises:

- 3.1.1. Business enterprises incorporated in Mongolia and their branches and representative offices;
- 3.1.2. foreign business enterprises whose place of management is in Mongolia;
- 3.1.3. foreign business enterprises and their permanent establishments that derive income in Mongolia or from Mongolian sources.

Section 4. Definition of Terms

4.1. The following terms used in this Act shall have the following meanings:

- 4.1.1. "Income derived abroad" means income derived by the taxpayer in a foreign country from business, property or property sales as defined in Subsection 7.3 of this Act;
- 4.1.2. "goods" mean movable and immovable property except money;

- 4.1.3. "immovable property" means property as defined in Subsections 84.3 and 86.2 of the Civil Code;
- 4.1.4. "intangible asset" means an incorporeal property which has no physical substance, has a relatively long useful life and which gives its owner rights, preference rights or exclusive rights;
- 4.1.5. "business enterprise" means a legal entity that is registered with the registration authority and carrying on a trade including company, partnership, cooperative, government and local government-owned enterprises and other similar legal entities that are required to pay income tax;
- 4.1.6. "withholder" means a person who has the duty to withhold tax from income paid to taxpayers and remit this to the central or local revenue;
- 4.1.7. "foreign exchange gain (loss)" means the gain or loss arising from transactions including sale of foreign currency and settlement of receivables or payables expressed in foreign currency;
- 4.1.8. "ultimate owner" means a person specified under Clause 3.1.11 of the Legal Entity Registration Act.

Section 5. The Taxpayer

5.1. A business enterprise that has taxable income in a tax year or that has the duty to pay tax despite not having such income shall be a taxpayer.

5.2. Taxpayers specified under Section 5.1 of this Act will be categorized as permanent resident taxpayers in Mongolia or non-resident taxpayers.

5.3. The following business enterprises will be deemed to be permanent resident taxpayers in Mongolia:

5.3.1. A business enterprise incorporated in accordance with the laws of Mongolia;

5.3.2. a foreign business enterprise whose place of management is in Mongolia.

5.4. The following business enterprises will be deemed to be Mongolian non-resident taxpayers:

5.4.1. A foreign business enterprise that carries on business in Mongolia through its permanent establishment

5.4.2. a foreign business enterprise that derives income in Mongolian territory or from Mongolian sources through means other than those set out in Clause 5.4.1 above.

5.5. The following units carrying on the business in whole or in part of an enterprise defined under Clause 5.4.1 of this Act shall be deemed to be permanent establishments:

- 5.5.1. Branch (unit, division);
- 5.5.2. factory;
- 5.5.3. place of sale or service;
- 5.5.4. oil and gas wells and mines that are extracting natural resources.

Section 6. Related Parties

6.1. If a person has one of the following relationships with a taxpayer, that person will be deemed to be a "related party":

- 6.1.1. Holds 20 or more percent of the ordinary shares;
- 6.1.2. is entitled to receive 20 or more percent of dividends or distributions;
- 6.1.3. is entitled to appoint 20 or more percent of management personnel or is entitled to determine the business operations.

CHAPTER TWO TAXABLE INCOME

Section 7. Taxable Income

7.1. Income derived from Mongolia or Mongolian sources and income derived from a foreign country in a tax year by a taxpayer specified under Subsection 5.3 of this Act shall be subject to taxation.

7.2. Income derived from Mongolia or Mongolian sources in a tax year by a taxpayer specified under Subsection 5.4 of this Act shall be subject to taxation.

7.3. The following income of a taxpayer shall be subject to tax:

- 7.3.1. Income derived from business operations;
- 7.3.2. income derived from property;
- 7.3.3. income derived from the sale of property.

7.4. In order to compute taxable income, tax-exempt income must be deducted.

7.5. In the event of an exchange of goods or services, the prices used by unrelated parties for similar goods or services must be applied.

7.6. The exchange rate published by the Central Bank of Mongolia on the relevant date shall be the basis for converting income derived or expenses incurred in foreign currency.

Section 8 – Income derived from Business Operations

8.1. The following types of income derived from business operations by a taxpayer shall be chargeable to tax:

- 8.1.1. Income derived from core or auxiliary manufacturing, works or services;
 - 8.1.2. income derived from the sale of rights;
 - 8.1.3. income derived from the sale of shares or securities;
 - 8.1.4. income derived from gambling or lottery;
 - 8.1.5. income derived from the sale or letting of erotic publications, literature or videos;
 - 8.1.6. income derived from the receipt of goods and services without receiving consideration from others;
 - 8.1.7. income derived from the sale of intangible assets;
 - 8.1.8. income derived from technical, managerial, consulting or other services;
 - 8.1.9. income derived from interest, default interest or compensation for damages received from a person who failed to perform contractual obligations;
 - 8.1.10. realized foreign exchange gains;
 - 8.1.11. other income similar to that specified under Clauses 8.1.1-8.1.10 of this Act.
- 8.2. Income derived from the sale of rights shall include the following types of income:
- 8.2.1. Income derived from the transfer, in accordance with methods prescribed by law, of a right granted by a government authority to carry on a particular business or the right to control or use particular property;
 - 8.2.2. income derived from the transfer by a legal entity or its ultimate owner of their shares or interest which results in a change in the ultimate owner of land lease or use rights or mineral licenses.
- 8.3. Income from the sale of intangible assets shall include income derived from the transfer for consideration of the intangible assets specified under Clause 4.1.4 of this Act.

Section 9 – Income derived from Property

- 9.1. The following types of income received by a taxpayer shall be subject to tax:
- 9.1.1. Income derived from the letting of immovable or movable property;
 - 9.1.2. income derived from royalties;
 - 9.1.3. dividend income;

9.1.4. interest income.

9.2. Royalty income shall include:

9.2.1. Payments for the usage of works protected by copyright under the Copyright and Related Rights Act;

9.2.2. payments for the usage of new inventions or utility models;

9.2.3. payments for the usage of trademarks under the Trademarks and Geographic Indications Act;

9.2.4. technology transfer payments under the Technology Transfer Act;

9.2.5. payments for the usage of information related to manufacturing, trade and scientific experiments;

9.2.6. other payments similar to those specified under Clauses 9.2.1 to 9.2.5 of this Act.

9.3. Dividends as specified under Clause 9.1.3 of this Act shall include monetary and non-monetary income or interest received by way of the distribution of dividends or distributions by a business enterprise to which a taxpayer made contributions.

9.4. The interest income as specified under Clause 9.1.4 of this Act shall mean payments made to, discounts or bonuses given to the taxpayer arising from lending money or transactions made for the purpose of lending money including interest on loans, interest on the balance of current accounts, interest on cash savings, guarantee payments and interest on debt instruments (bonds).

Section 10. Income derived from the Sale of Property

10.1. The following income of a taxpayer shall be subject to tax:

10.1.1. Income derived from the sale of immovable property; and

10.1.2. income derived from the sale of movable property.

Section 11. Determining Taxable Income arising in connection with the sale of goods and provision of services between Related Parties

11.1. In the event the persons specified under Section 6 of this Act have sold or transferred goods or provided services among themselves at a value lower or higher than market value, then taxable income shall be determined by applying market benchmark prices for similar goods and services.

11.2. The member of the Cabinet in charge of finances shall adopt the methodology for applying benchmark prices.

CHAPTER THREE
EXPENSES DEDUCTIBLE FROM TAXABLE INCOME

Section 12. Expenses Deductible from Taxable Income

- 12.1. Taxable income shall be determined upon deducting the following expenses:
- 12.1.1. All types of inventory expenses including on raw materials, core and auxiliary materials, semi-processed products, water, power, fuel, petrol, spare parts, packaging and wrapping;
 - 12.1.2. salary, wages and additional pay on which social and health insurance contributions and individual income tax withholdings are deducted;
 - 12.1.3. health and social insurance contributions;
 - 12.1.4. awards, bonuses, accommodation, home rental payments and transportation, meal and fuel discounts given to workers;
 - 12.1.5. fixed asset depreciation and amortization expenses;
 - 12.1.6. regular maintenance expenses;
 - 12.1.7. loan interest;
 - 12.1.8. realized exchange losses;
 - 12.1.9. contract work or service fees and payments;
 - 12.1.10. lease payments;
 - 12.1.11. financial lease interest;
 - 12.1.12. specialized newspaper or magazine subscriptions;
 - 12.1.13. mandatory and voluntary insurance premiums;
 - 12.1.14. excise and immovable property taxes which have been reported as payable to the revenue, customs duties paid on imported inventory except fixed assets, motorized vehicle tax, land and natural resource usage fees and mineral royalties;
 - 12.1.15. funds set aside by cooperatives that carry on savings and loans business into their loan loss reserves and funds set aside by other cooperatives into their potential loss reserves;
 - 12.1.16. funds placed in the loan loss reserves set up by banks or non-bank financial institutions to protect against potential losses that may arise as a result of unpaid loans;
 - 12.1.17. advertising expenses;

- 12.1.18. expenses incurred in connection with internships by students at professional training and industrial centers;
- 12.1.19. business trip expenses;
- 12.1.20. expenses incurred on seeds, animal and livestock feed, medication and pesticides;
- 12.1.21. transportation expenses;
- 12.1.22. low-cost and short-term assets;
- 12.1.23. occupational safety expenses;
- 12.1.24. communications, stationery, cleaning and security expenses;
- 12.1.25. expenses incurred in connection with reparation of damages arising from the types of disaster indicated under Clause 4.1.10 of the Disaster Management Act;
- 12.1.26. normal wear and tear of inventory;
- 12.1.27. funds reserved for environmental reclamation in accordance with Clauses 38.1.8 and 39.1.9 of the Minerals Act;
- 12.1.28. expenses incurred in connection with the creation of training environments for vocational training centers, the supply of equipment and decoration of training centers;
- 12.1.29. expenses incurred in connection with the training of teachers;
- 12.1.30. financial aid given to educational or vocational training institutions for the purpose of preparing qualified professionals;
- 12.1.31. donations and capital contributions made to education and training support funds and for the support of education and training concerning waste;
- 12.1.32. purchase prices paid for the purchase of shares and securities and other expenses which are supported by documentation;
- 12.1.33. investments in power generation and transmission lines, clean water supply, sewage water lines, roads, railroads and communications infrastructure in industrial and technological parks;
- 12.1.34. payment of principal and interest transferred to asset-backed securities holders from special purpose vehicles and housing finance companies;
- 12.1.35. donations made to reduce the capital city's air pollution and waste;

12.1.36. donations of up to 10 million tögrögs in a tax year by a business enterprise for the support of sports associations or sports clubs.

12.2. The expenses deductible under Clause 12.1.6 of this Act shall not exceed two (2) percent of the carrying value of the immovable property and shall not exceed five (5) percent of the carrying value of other assets, and any scheduled maintenance expense in excess thereof shall be treated as major repair.

12.3. The aggregate amount of voluntary insurance premiums to be deducted in accordance with Clause 12.1.13 of this Act shall not exceed 15 percent of the business enterprise's taxable income.

12.4. Deductible expenses under Clause 12.1.16 of this Act shall not apply to assets set aside in performing loan portfolios by banks or non-bank financial institutions.

12.5. The tax deductible expenses under Clause 12.1.19 of this Act shall be measured by performance and shall not exceed two (2) times the business trip expenses of public officials.

12.6. Losses under Clause 12.1.25 of this Act shall be determined by the assessment of a competent authority.

12.7. The Government shall adopt the amortization limits under Clause 12.1.26 of this Act.

12.8. The following expenses shall not be deductible:

- 12.8.1. Finance lease principal;
- 12.8.2. fines, interest or reimbursements paid as a result of the default of the taxpayer.

12.9. Expenses incurred in connection with the possession and transfer of mineral mining licenses shall be capitalized as production cost in equal proportions for the remainder of a license's period of validity and shall be depreciated.

Section 13. Depreciation and Amortization

13.1. Assets with a useful life of more than one year shall be depreciated or amortized in accordance with Clause 12.1.5 of this Act.

13.2. Fixed assets shall have the following estimated useful life and their depreciation or amortization shall be applied using the straight line method:

	Fixed asset type	Useful life (in years)
1	Buildings and permanent fixtures	40
2	Cars, machinery, technology and equipment	10
3	Computers and their parts and software	3
4	Intangible assets with no definite useful life	10
5	Intangible assets with a definite useful life (including mineral exploration and mining licenses)	Throughout their lifetime
6	Other fixed assets	10

7	Buildings and permanent fixtures within industrial or technological parks	20
8	Equipment, machinery and technologies within industrial or technological parks	3

13.3. Major repair or maintenance expenses under Subsection 12.2 of this Act shall be added to the carrying value of their related asset and be depreciated or amortized for the remainder of that asset's useful life.

13.4. In the event any portion of an asset is being used to generate taxable revenue, then depreciation or amortization shall be computed in proportion to that portion and deducted from taxable revenue.

13.5. Mineral mining license holders shall compute the depreciation and amortization of industrial and social infrastructure built by the license holder during those buildings and permanent fixtures' useful lives, and shall compute these under tax-deductible expenses as set out in Section 12 of this Act.

13.6. The depreciable or amortizable value in respect of mineral exploration and mining licenses under Subsection 13.2 of this Act shall be the aggregate of the fees paid in connection with the transfer of those licenses, the license fees and the purchase price.

13.7. In the event a taxpayer ceases to use the depreciable asset to derive taxable income, the asset shall be deemed to have been sold at its residual value or market value, whichever is higher, and tax shall be imposed.

13.8. A finance lease asset shall be recorded on the balance sheet of either the lessor or lessee in accordance with the finance lease agreement.

13.9. Land and inventory shall not be depreciable or amortizable.

13.10. Depreciation or amortization on newly-acquired assets shall commence from the first day of the next quarter of their acquisition.

13.11. In respect of fixed assets that are under construction, these shall be deemed to have been owned from the date of commissioning and depreciation shall commence from that date.

Section 14. Loan Interest to be Included in Deductible Expenses

14.1. Interest on loans obtained for the purpose of carrying on core and auxiliary manufacturing, works and services under Clause 8.1.1 of this Act or purchasing property shall be deductible from taxable income.

14.2. Interest on loans obtained from an individual who is a permanent tax resident in Mongolia and who controls the taxpayer's business enterprise shall not be deductible from taxable income, and such expenses shall be deemed to be dividends paid by the individual who gave the loan and be subject to tax.

14.3. If the amount of a loan given by the investor to the taxpayer exceeds the previous investment by three-fold (3x), then the interest paid on the loan excess will

not be deductible from taxable income and shall be treated as a dividend and subject to tax.

14.4. Interest on loans paid during the construction, assembly or installation of equipment funded by those loans shall be attributed as the cost of such assets, and interest payments on the loans shall be deductible from the date of commissioning of those assets.

Section 15. Limitations on Deductible Expenses

15.1. Expenses incurred under the following circumstances shall not be deductible:

- 15.1.1. Expenses that were incurred in connection with deriving income exempt from tax under this Act;
- 15.1.2. expenses that are not evidenced by documentation;
- 15.1.3. payments that were not subjected to withholding tax as required under this Act.

Section 16. Determining Taxable Income

16.1. Business enterprise income tax shall be levied on the annual taxable income of the taxpayer.

16.2. With respect to gross incomes as set out under Clauses 8.1.1, 8.1.6-8.1.11, 9.1.1 of this Act and, in the case of banks, non-bank financial institutions and savings-loans cooperatives, Clause 9.1.4 of this Act, taxable income shall be determined by deducting the expenses specified under Section 12 of this Act; and with respect to stabilization certificate holders, taxable income shall be determined by deducting the portion in excess of the stabilized amount.

16.3. The taxable sum of the following types of income shall be determined on the basis of the gross amount:

- 16.3.1. Dividend;
- 16.3.2. royalty;
- 16.3.3. income derived from the sale of immovable property;
- 16.3.4. interest;
- 16.3.5. sale of rights;
- 16.3.6. the sale or letting of erotic publications, books and video recordings, and income derived from erotic performances.

16.4. In the event a business enterprise to which a taxpayer made capital contributions has dissolved, the taxable income on dividends shall be determined by deducting the price paid for the purchase of the shares and assets from the amount of shares held by the taxpayer and their contribution to the share capital.

16.5. Tax shall be levied in accordance with this Act in the event that loans placed in the loan loss reserves of banks and non-bank financial institutions, and loan risk funds of savings-loans cooperatives, that were deducted from taxable income, are subsequently repaid.

16.6. Taxable income derived from quizzes, gambling and lotteries shall be determined by deducting the documented expenses incurred in connection with deriving such income and the monetary assets and price of the products given in prizes.

16.7. The taxable income of business enterprises that carry on insurance business shall be determined by deducting the reserve fund established in that year and its operating expenses from total operating income.

16.8. In the event of the sale of shares and other securities, taxable income shall be determined by deducting the purchase price and documented fees paid in connection with such purchases from the total sale price of those shares and securities. This subsection shall not apply to shares and other securities issued by the legal entity itself.

16.9. In the event of the sale of movable property, taxable income shall be determined by deducting the book value from the sale price.

16.10. In the event a taxpayer that does not reside in Mongolia carries on business through its permanent establishment in Mongolia, the following expenses shall not be deducted in determining its taxable income:

16.10.1. Expenses incurred outside Mongolia;

16.10.2. expenses which are not related to deriving such income, management and administrative expenses.

16.11. Taxable income derived in connection with Subsection 8.2 shall be determined by taking the income earned from the transfer of shares by the ultimate holder in proportion to their held proportion of the license-holding entity's share capital against the value of the license.

16.12. Taxable income derived in connection with Subsection 8.2 shall be determined by taking the income earned from the transfer of shares by the ultimate holder in proportion to their held proportion of the land lease or usage right holding entity's share capital against the value of the land rights.

16.13. The income under Subsection 16.12 of this Act shall be determined on the basis of the pricing requirements under Subsection 38.6 of the Land Act, and the member of the Cabinet in charge of finances and fiscal affairs shall adopt guidelines on the levy of taxation.

16.14. The member of the Cabinet in charge of finances and fiscal affairs shall adopt guidelines on the levy of taxation on the income specified under Subsection 16.11 of this Act and the calculation of the value of mineral licenses.

CHAPTER FIVE

Tax Rates

Section 17. Tax Rates

17.1. In the event 0-3.0 billion tögrögs of total annual taxable income is determined in accordance with Subsections 16.2, 16.8 and 16.9 of this Act, 10% tax shall be levied, and in the event taxable income in excess of 3 billion tögrögs is determined, then 25% tax shall be levied on the taxable income in excess of 3 billion MNT.

17.2. Tax shall be levied at the following rates on the following incomes of a taxpayer:

- 17.2.1. Dividend income at 10 percent;
- 17.2.2. royalties at 10 percent;
- 17.2.3. quizzes, gambling and lottery income at 40 percent;
- 17.2.4. income derived from the sale or letting of erotic publications, literature or video at 40 percent;
- 17.2.5. sale of immovable property at two (2) percent;
- 17.2.6. interest income at 10 percent
- 17.2.7. sale of rights at 30 percent;
- 17.2.8. transfer by a permanent establishment of a foreign business enterprise of profits attributable to itself at 20 percent.
- 17.2.9. The following incomes earned in Mongolia and from Mongolian sources by a taxpayer who does not reside in Mongolia shall be subject to 20 percent tax:
 - a) dividends received from a company incorporated in Mongolia;
 - b) interest and guarantee payments;
 - c) royalties, finance lease interest and management fees, operating lease payments and income derived from the letting of tangible and intangible property;
 - d) income derived from goods sold or services performed in Mongolia;
 - e) income derived from Mongolian sources for provision of services directly or electronically;
- 17.2.10. Tax shall be levied at the rate of 10 percent on interest on bonds issued by Mongolian commercial banks on foreign and domestic stock exchanges purchased by non-resident taxpayers.

CHAPTER SIX EXEMPTIONS AND ALLOWANCES

Section 18. Exemption from Tax

18.1. The following income of taxpayers shall be exempt from taxation:

- 18.1.1. Interest on debt instruments (bonds) of the Government, province or capital city Governor and the Development Bank of Mongolia;
- 18.1.2. income that is specified according to Subsection 17.1 and Clause 17.2.1 of this Act as being derived from the sale of its own portion of the production by a taxpayer carrying on business in Mongolia under a petroleum production sharing contract;
- 18.1.3. income of cooperatives derived from the difference between the sale price of its members' products and intermediary fee;
- 18.1.4. the incomes of a business enterprise with 25 or more employees of which two-thirds are blind;
- 18.1.5. dividends under Clause 7.1.1 of the Future Heritage Fund Act;
- 18.1.6. income derived from the manufacture and manufacturing-sale of equipment intended for small and medium-size plants in Mongolia and spare parts thereof;
- 18.1.7. income derived from core businesses specified under the Loan Guarantee Institutions Act;
- 18.1.8. income derived from the sale of equipment and technologies which use natural resources sustainably, reduce environmental pollution or waste, or which have no adverse environmental impacts;
- 18.1.9. for a period of three (3) years from the date of registration with the companies' registry, income derived from the supply of innovative goods manufactured domestically, works and services by a start-up company under the Innovations Act;
- 18.1.10. fee income derived by savings insurance funds;
- 18.1.11. the income of investment funds;
- 18.1.12. income arising from the conversion of depository receipts into securities;
- 18.1.13. with respect to a business enterprise that has invested 500,000 or more United States dollars into infrastructure within free trade zones including energy and heating sources and lines, clean water supply, sewage systems, roads, railroads, airports,

telecommunications networks, income equal to 50 percent of the investment;

- 18.1.14. with respect to a business enterprise that has invested 300,000 or more United States dollars for the construction and development of warehouses, loading and unloading structures, hotels, tourist complexes and factories that will manufacture goods that will replace imports and increase exports in free trade zones, income equal to 50 percent of the investment;
- 18.1.15. funds allocated from the treasury to the Future Heritage Fund and income derived from investments made by the fund;
- 18.1.16. with respect to business enterprises that built and develop sports facilities, sports halls or fields, and infrastructure which satisfies the standards under Subsection 26.2 of the Sports Act, income equal to 50 percent of the total income during the first five years after commissioning of the sports facilities, sports halls or fields.

18.2. In the event a taxpayer specified under Clause 18.1.2 of this Act transfers income derived from the sale of its portion of the products overseas and which is exempt from taxation, said income will be exempted from tax at the rate set out under Clause 17.2.8 of this Act.

18.3. The Government shall adopt the list of small and medium-size industrial equipment and their spare parts under Clause 18.1.6 of this Act and the list of products, works and services under Clause 18.1.6 of this Act and the requirements and conditions attached to them.

18.4. The Government shall adopt the list of technologies and equipment that use natural resources sustainably, reduce environmental pollution or waste and which have no adverse environmental impacts.

Section 19. Tax Allowances

19.1. Business enterprises that produce or plant the following products shall be entitled to a 50 percent allowance on their taxable income derived therefrom:

- 19.1.1. Wheat, potatoes and vegetables;
- 19.1.2. milk;
- 19.1.3. fruit;
- 19.1.4. fodder.

- 19.2. Omitted by the Act of November 25 2009
- 19.3. Omitted by the Act of November 25 2009
- 19.4. Omitted by the Act of November 25 2009
- 19.5. Omitted by the Act of November 25 2009
- 19.6. Omitted by the Act of November 25 2009
- 19.7. Omitted by the Act of November 25 2009

19.8. An allowance shall be given to a business enterprise that employs more than 50% disabled citizens in proportion to that enterprise's total number of employees.

19.9. The allocation of tax credits to a business enterprise that has paid taxes in a foreign state shall be decided in accordance with the related agreement for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital.

19.10. In the event business enterprises and citizens have donated up to one million töгрөгс for the purpose of supporting non-governmental organizations founded by disabled citizens and such donation is evidenced, such donation shall be deducted from the taxable income in that tax year.

19.11. Citizens and business enterprises that finance activities related to the improvement of natural water quality and reclamation of rivers and creeks for the purposes of increasing water reserves and water supplies within a certain region shall be entitled to an allowance deduction equal to the amount of financing extended.

19.12. With respect to a taxpayer specified under Section 5 of this Act that carries on business, is registered and transacts with the local treasury and has created no less than three jobs (which are verified by the payment of social insurance contributions) and is located in a province or city more than 550 km from the capital city (Ulaanbaatar), that business enterprise's taxable income specified under Subsection 7.3 of this Act shall be entitled to a 50 percent allowance, and such business enterprises located in a province or city 1,000 km from the capital city shall be entitled to a 90 percent allowance.

(This subsection was inserted by the Act of February 5 2016 and shall be effective until January 1 2019)

19.13. Taxpayers that carry out the following businesses shall not be entitled to the allowance under Subsection 19.12 of this Act:

- 19.13.1. Mineral exploration and mining;
- 19.13.2. sale and importation of alcoholic beverages;
- 19.13.3. tobacco leave plantations and the sale and importation of tobacco;
- 19.13.4. petroleum product production, wholesale and retail and importation of petrol and diesel;
- 19.13.5. telecommunications services;
- 19.13.6. construction of power sources and lines, and power generation, sale and transmission;
- 19.13.7. civil aviation;
- 19.13.8. roads and road facility construction and maintenance;
- 19.13.9. business related to radioactive minerals and nuclear power.

(This subsection was inserted by the Act of February 5 2016 and shall be effective until January 1 2019.)

19.14. With respect to a taxpayer specified under Subsection 5.3 of this Act that has an annual taxable income of not greater than 1.5 billion tögrögs, as determined in accordance with Subsection 7.3 of this Act, and carries on its business in one of the following industries, the tax on the income derived from that industry shall be reduced by 90 percent:

19.14.1. Agriculture, animal husbandry and other related auxiliary activities;

19.14.2. food products processing;

19.14.3. textiles and clothing manufacture;

19.14.4. building materials manufacture.

(This subsection was inserted by the Act of February 2 2017 and shall be effective until January 1 2021.)

19.15. The annual taxable income of a taxpayer who is entitled to the allowance deduction under Subsection 19.14 of this Act shall be determined by the aggregate of the taxpayer and its related party's taxable income.

(This subsection was inserted by the Act of February 2 2017 and shall be effective until January 1 2021.)

19.16. "Classification of All Economic Activities" under Subsection 8.2 of the Value-added Tax Act shall be applied when granting the allowance under Subsection 19.14 of this Act.

(This subsection was inserted by the Act of February 2 2017 and shall be effective until January 1 2021.)

19.17. Both the allowances under Subsections 19.1 and 19.14 shall not be granted simultaneously to a taxpayer and the taxpayer shall elect one or the other of the allowances.

(This subsection was inserted by the Act of February 2 2017 and shall be effective until January 1 2021.)

Section 20. Loss Carryforward

20.1. The excess portion of taxable income remaining after the deduction of all expenses under Section 12 of this Act except those expenses set out under Section 15 shall be deemed as losses as determined by the tax return.

20.2. Losses under Subsection 20.1 of this Act shall be deducted from taxable income for four to eight (4-8) consecutive years after the tax year in which the loss arose by enterprises that conduct business in the infrastructure and mining industries, and for two years by enterprises that engage in other industries, and the timeframe for

calculating losses in the infrastructure and mining industries in conjunction with the timeframe for making the investments shall be determined by regulations adopted by the Government.

20.3. The amount of losses to be deducted on an annual basis from taxable income under Subsection 20.2 of this Act shall be 100 percent of the taxable income derived during the applicable tax year in respect to the infrastructure and mining industries, and shall not exceed 50 percent of the taxable income for other industries, and such allowable losses shall be deducted from the taxpayer's taxable income.

20.4. The losses specified under Subsection 20.1 of this Act shall not apply to losses that arose in the annual tax returns for tax years ended before January 1 2007.

20.5. The losses of business enterprises that made investments in free trade zones shall be deducted from taxable income for five years after completion of the development and commencement of their manufacturing or business activities.

CHAPTER SEVEN

Tax Levy, Payment and Reporting

Section 21. Tax Payment and Reporting

21.1. The taxpayer shall determine their income on a year-to-date basis and the taxes to be paid on the basis of the quarterly and annual tax returns, which shall be prepared using accrual basis accounting.

21.2. "Tax year" means the calendar year in which income was derived and expenses were incurred.

22.3. The tax office of the appropriate jurisdiction shall deliver to the taxpayer a schedule detailing in which month and quarter tax payments should be made in that tax year in accordance with the schedule adopted by the central governmental body in charge of fiscal matters.

21.4. The taxpayer shall pay taxes in advance before the 25th day of each month under the schedule delivered in accordance with Subsection 21.3 of this Act, submit quarterly tax returns before the 20th day of the first month of the succeeding quarter, and submit annual tax returns before the 10th day of February of the succeeding year and settle the final annual tax payment.

21.5. Tax on incomes specified under Clauses from 17.2.1 to 17.2.3 and from 17.2.7 to 17.2.9 shall be deducted by the withholder as specified under Clause 4.1.6 of this Act and be remitted to the treasury within seven (7) business days.

21.6. The withholder shall withhold tax on the sale of immovable property and remit it to the treasury within 10 business days of the sale of that property.

21.7. A mineral license holder or land rights holder shall within seven (7) business days of a transaction withhold the tax on income as set out under Subsections 16.11, 16.12, 16.13 and 16.14 and remit this to the treasury.

21.8. The withholder shall submit the withholding tax returns for taxes withheld in accordance with Subsections 21.5 and 21.6 of this Act to the relevant tax office before the 20th day of the succeeding quarter on a quarter-to-date basis, and before the 10th day of February of the succeeding year.

21.9. The state has the right to remit any dividends allocable to itself to the treasury in whole or in part and the Government shall set the amount thereof from time to time.

CHAPTER EIGHT MISCELLANEOUS

Section 22. Commencement of the Act

22.1. This Act shall come into force from January 1, 2007.

SPEAKER OF THE PARLIAMENT OF MONGOLIA

NYAMDORJ TS.

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