

## DETAILED INTRODUCTION

### On the Draft Law to Amend the Law on Entity Income Tax

The long-term development policy of Mongolia “Vision 2050”, approved by Resolution No.52 of the State Great Khural of Mongolia in 2020, sets forth objectives to enhance the competitiveness of small and medium-sized enterprises (SMEs), and to establish favorable and internationally competitive conditions for micro, small, and medium enterprises. Within the framework of implementing these objectives, it is stipulated to “fully support investment and create a favorable business environment” and to “develop internationally competitive micro, small, and medium-sized enterprises and increase employment.”

Pursuant to Resolution No. 23 of 2020, the State Great Khural of Mongolia approved the Five-Year Development Guidelines of Mongolia for 2021–2025, wherein Clause 3.3.2 provides for the strengthening and consolidation of the environment supporting micro, small, and medium-sized enterprises, and Clause 4.1.5 mandates the creation of a favorable business environment and the enhancement of citizens’ purchasing power.

The Government Action Plan of Mongolia for 2024–2028, approved by Resolution No. 21 of the State Great Khural in 2024, provides in Section 3.2.1 for “tax and social insurance reforms.” Within this framework, the objectives include gradually aligning the tax environment with international standards, improving the e-tax system, strengthening the legal framework for entrepreneurship, reducing the tax burden on businesses, optimizing tax incentives, improving the overall tax environment, and supporting responsible taxpayers.

The 2019 tax reform package, encompassing the General Tax Law, the Corporate Income Tax Law, and the Individual Income Tax Law, was approved by the State Great Khural and took effect in 2020. This reform aimed to support small and medium-sized enterprises, modernize tax processes through digitalization, and incorporate contemporary international taxation principles into domestic law.

However, in the six years following the legal reforms, persistent geopolitical instability, coupled with trade policy uncertainty, contributed to a slowdown in major economies, rising inflation, increased interest rates, and declining foreign investment, creating widespread financial challenges and risks in the global economic landscape.

Within this context, countries around the world have used tax policies to promote the growth and development of SMEs in the recent years. For example, Japan, India, and Canada have implemented tax incentives for SMEs to reduce financial burdens, increase employment, and stimulate economic growth. Additionally, countries such as Singapore, the UK, and Kazakhstan have made changes aimed to attract investment, enhance the business environment, and simplify and clarify their tax systems. These changes play a crucial role in ensuring the financial stability of SMEs, enhancing their competitiveness, and supporting economic growth.

To introduce the necessary amendments to tax legislation, starting from January 27, 2025, the Ministry of Finance, the tax and customs authorities, the Mongolian National Chamber of Commerce and Industry, and the Secretariat of the State Great Khural jointly organized 150 meetings and discussions across the country, involving more than 11,000 taxpayers, and received approximately 176,000 proposals. During these discussions,

enterprises frequently expressed the need for tax policy measures to support SMEs in their early years of operation, to allow certain expenses to be treated as deductible, to resolve ambiguities and disputes arising from the application of tax legislation, and to extend the deadlines for tax payments.

Considering the proposals received from enterprises and in line with the policy objectives outlined above, this draft law amending the Law on Entity Income Tax has been developed with the aim of supporting business sustainability and expansion, reducing the tax burden on SMEs, and creating a more favorable tax environment for entrepreneurs.

The following key measures are reflected in the draft law:

**1. Reduce the tax burden on SMEs and make the tax environment simpler, easier, and more flexible.**

- Businesses with annual sales revenue of between MNT 1.5–2.5 billion will be taxed at 10%, with 50% of the tax paid refunded in the following year;
- Increase the threshold for simplified low-tax regimes for SMEs to MNT 400 million;
- Depreciation of newly acquired assets will be calculated from the date the asset is first put into use;
- Extend the deadlines for filing tax returns.

These provisions are reflected in Articles 3, 4, and 5 of the draft law.

**2. To support enterprises in sustaining operations, building reserves, developing human resources, and expanding business opportunities.**

Treat expenses for employee training, professional development, certification, and staff welfare as deductible.

- Allow non-cash expenses related to foreign operations of taxpayers to be deductible without requiring e-invoices;
- Exempt insurance compensation for damages caused by disasters;
- Treat funds transferred to special government funds in accordance with the law as deductible expenses;
- Clarify provisions of tax legislation that are currently ambiguous for taxpayers.

These provisions are reflected in Articles 1, 2, 3, 4, 5, and 6 of the draft law.

Upon adoption, the draft law will improve Mongolia's international business competitiveness and reduce the tax burden on entrepreneurs. As a result, it will play an important role in creating the fundamental conditions necessary to support economic growth and strengthen social stability.

In relation to the draft law, the necessary amendments to the Law on Vocational and Technical Education and Training have been duly prepared.