

INTRODUCTION

Revised Draft of the law on Value-Added Tax

The long-term policy document "Vision 2050," approved by Resolution No. 52 of the State Great Khural of Mongolia, aims to establish an economy that is equitable and accessible to every household and citizen by enhancing the competitiveness of small and medium-sized enterprises (SMEs), fostering a favorable investment environment, and creating conditions conducive to the growth of competitive micro, small, and medium-sized businesses. The policy outlines key objectives, including supporting employment and ensuring steady household income growth to strengthen the middle class, reducing inequalities across all sectors while increasing the number of middle-income citizens and improving quality of life. It also aims to create a fully supportive investment environment to foster a favorable business climate and develop internationally competitive micro, small, and medium-sized enterprises to generate more employment opportunities.

By Resolution No. 23 of 2020 of the State Great Khural, the Five-Year Planning for the Development of Mongolia for 2021–2025 were adopted, which provide in Paragraph 3.3.2 that "the environment for supporting micro, small, and medium-sized enterprises shall be strengthened and consolidated," and in Paragraph 4.1.5 that "a favorable business environment shall be created and the purchasing power of citizens shall be improved".

Pursuant to Resolution No. 106 of 2021 of the State Great Khural, the medium-term program entitled "New Recovery Policy" was approved, which provides that, in the long run, average economic growth shall be sustained at 6 percent, per capita national income shall be doubled, and the labor force participation rate shall be raised to 65 percent.

According to Resolution No. 21 of 2024 of the State Great Khural, Annex 1 to the "Government Action Program of Mongolia for 2024–2028" provides under Paragraph 3.2.1 that "tax and social insurance reforms shall be implemented." In this context, the Program outlines key objectives, including reducing the tax burden on low- and middle-income citizens, ensuring the stability of the tax system, progressively harmonizing the tax environment with international standards, enhancing the electronic tax system, alleviating the tax burden on business entities, rationalizing tax incentives, and promoting responsible taxpayers.

Mongolia first introduced the value-added tax in 1998. Subsequently, the Law on Value-Added Tax was revised in its entirety in 2007 and most recently in 2015, and ten years have since passed. In recent years, due to the global pandemic and the challenging geopolitical situation, the depreciation of the MNT, rising inflation, and higher interest rates, it has become of critical importance to protect the incomes of low- and middle-income citizens and households, to support employment, and to sustain the liquidity and working capital of enterprises. Therefore, in order to reduce the burden of value-added tax borne by citizens through final consumption and to comprehensively address the difficulties faced by enterprises, the revised draft of this Law has been developed.

In accordance with Article 8.1.5 and Article 38 of the Law on Legislation, a nationwide and inclusive consultation on tax reform was initiated on 27 January 2025 through the open collection of proposals and the conduct of focus group studies, thereby ensuring the active participation of taxpayers, academics, researchers, and chambers of

commerce. Within this framework, the Ministry of Finance, in cooperation with the tax and customs administrations, the Mongolian National Chamber of Commerce and Industry, the Secretariat of the State Great Khural, and the Economic Development Council, organized 150 meetings and discussions nationwide, involving more than 11,000 taxpayers on a duplicate-count basis, and gathered in excess of 176,000 comments and proposals.

As a result of the consultations, a broad range of common proposals were put forward, including reducing the burden of value-added tax, allowing the immediate deduction of tax paid on the acquisition of fixed assets, establishing incentives to support employment, revising the fundamental principle of income recognition, and ensuring that taxation is applied uniformly to all.

In view of these circumstances, it has become necessary to revise the Law on Value-Added Tax in order to make tax policy more flexible and comprehensible, establish a fair system in which all taxpayers contribute uniformly, support the operations of enterprises, reduce the tax burden on citizens and households, lessen income inequality, enhance the efficiency and accessibility of tax exemptions and incentives, improve tax compliance, and reduce shadow economy.

On the basis of the above grounds and requirements, the revised draft of the Law on Value-Added Tax has been developed in line with the following principal objectives:

To reduce the tax burden on citizens and households, reduce income inequality, support business activity, and provide enterprises with opportunities to expand their operations:

1. The draft law provides for improving the efficiency and accessibility of value-added tax exemptions and reliefs in line with international trends and principles, by introducing a progressive mechanism for crediting and refunding the VAT paid by citizens. Specifically, the proposal stipulates that for each citizen, VAT paid on monthly purchases up to MNT 500,000 shall be 100 percent credited; VAT paid on the portion of purchases between MNT 500,000 and MNT 1,000,000 shall be 50 percent credited; and VAT paid on the portion exceeding MNT 1,000,000 shall be 20 percent credited and refunded.

2. Within the framework of the objective that “all taxpayers shall contribute uniformly and fairly, and VAT shall not impose an additional burden on enterprises,” the draft law provides that all persons shall become VAT withholding taxpayers. Taxpayers with annual sales revenue of up to MNT 400 million shall be subject to a simplified regime under which they report and pay on a quarterly basis. Furthermore, in order to promote business activity and to ensure that VAT does not create additional burdens on enterprises, the form of exemptions that currently cause difficulties for businesses has been revised. Under the new approach, enterprises that purchase exempt goods and engage in activities adding value will no longer face additional VAT burdens, thereby reducing business costs and increasing operational activity.

3. In order to address the issue of undocumented purchases by manufacturers and to reduce the resulting financial burden, the draft law provides that, where payment for purchased goods is made through non-cash means, the price shall be deemed to include value-added tax, thereby granting the right to deduct such amount from the tax payable.

4. A system for assessing taxpayers’ compliance with the law shall be introduced, accompanied by mechanisms to support taxpayers with high compliance and to promote voluntary compliance with tax legislation. In particular, taxpayers with a high level of responsibility and compliance will be granted the possibility to defer payment of domestic

and import VAT liabilities for up to two months. As a result, enterprises will benefit from improved liquidity and reduced financial pressure, which in turn will support business expansion and have a positive effect on broadening the tax base.

5. With a view to reducing the financial burden on enterprises and ensuring that VAT does not create an additional burden, the draft law abolishes existing restrictions on deductions and grants the right to directly deduct VAT paid on the acquisition of fixed assets and on services received from non-resident entities.

6. To support workforce development and human resource policies and to improve working conditions, the draft law provides that expenses incurred for employee training and professional development, as well as for employee welfare, shall be deductible from value-added tax.

7. The draft law provides for the imposition of tax on high-value vehicles for passengers and the discontinuation of exemptions for residential properties exceeding a specified value threshold.

8. Within the framework of the objective of protecting the tax base, the draft law stipulates that value-added tax shall be imposed on digital services provided from abroad to residents of Mongolia, and establishes the requirement for such service providers to register as withholding taxpayers.

The above-mentioned amendments have been reflected in Chapters 1, 2, 3, 4, 5, 6, and 7 of the draft law.

Upon adoption of the draft law, the tax burden borne by citizens and households through consumption will be reduced, real income will be protected, and income inequality will be diminished. Enterprises will benefit from reduced pressure on liquidity and working capital, thereby enabling greater business activity and expansion. A tax system in which all taxpayers contribute uniformly and fairly will be established, tax compliance will be improved, and the shadow economy will be reduced.

Going forward, the introduction of systems based on artificial intelligence and big data will enable taxpayers to obtain the necessary information without delay, resolve issues related to compliance with tax legislation in advance, and exert a positive impact on the operations of enterprises, as well as on the social and economic environment of Mongolia.

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