

INTRODUCTION

On Draft Law to Amend the Personal Income Tax Law

The long-term development policy of Mongolia "Vision 2050", approved by Resolution No. 52 of the State Great Khural of Mongolia, includes objectives to ensure that economic growth is both equitable and accessible to all households and citizens. The policy seeks to promote employment, increase household income to foster the growth of a robust middle class, and enhance the availability and provision of high-quality, environmentally sustainable housing solutions.

The mid-term development program, "New Recovery Policy," approved by Resolution No. 106 of the State Great Khural of Mongolia on December 30, 2021, outlines medium-term goals aimed at sustaining an average economic growth rate of 6%, doubling the national income per capita, and raising the labor force participation rate to 65%.

The Mongolian Government Action Plan for 2024-2028, approved by State Great Khural Resolution No. 21 in 2024, outlines key initiatives to establish a National Wealth Fund, expedite the development of affordable housing, and implement tax and social insurance reforms. These reforms aim to reduce the tax burden on low- and middle-income individuals and households, support responsible taxpayers, align the tax system with international standards, create a regionally differentiated tax system, and support compliant taxpayers.

To achieve these objectives, support economic growth, protect the real incomes of individuals and households, promote employment, and improve energy-efficient housing /specifically in rural areas/, a draft law amending the Law on Personal Income Tax will be developed.

The revised edition of the Law on Personal Income Tax was approved by the State Great Khural in 2019 and took effect in 2020. The reform aimed at supporting micro and small business owners, reducing their tax compliance costs, and simplifying the reporting process.

Since the personal income tax reform, persistent geopolitical instability and trade policy uncertainty have contributed to slower growth in major economies, rising inflation, and creating widespread financial challenges globally.

In Mongolia, inflation has steadily increased, reaching 9% by the fourth quarter of 2024. These economic conditions have disproportionately affected low- and middle-income individuals and households, leading to a reduction in their real income and purchasing power.

Governments worldwide frequently implement personal income tax policies designed to redistribute wealth, provide tax incentives to individuals and households to increase their disposable income. For instance, countries such as South Korea, France, and Singapore have introduced tax incentives on for green housing purchases and employment-related income in recent years. These initiatives aim to protect household income, promote employment, and encourage energy efficiency. Such measures not only help reduce the

tax burden on individuals and households but also support environmentally sustainable consumption behavior.

In response to the rapidly changing global economic landscape, there is a pressing need to refine the current personal income tax system to ensure alignment with the international best practices. This targets economic growth to benefit individuals who are actively employed and creating wealth.

Furthermore, to ensure balanced development between urban and rural areas, create favorable living conditions for citizens relocating from Ulaanbaatar to rural regions, promote energy-efficient housing, and establish a legal framework for implementing independent regional economic policies, it is imperative to undertake reforms to the tax laws.

A proactive tax system is essential, one that prepares draft returns for taxpayers, simplifies filing and reporting, and effectively mitigates tax risks. This system should include an electronic platform that automatically assesses tax risks, issues early warnings to high-risk taxpayers, and facilitates data-driven decision-making.

The objective of the draft law is to optimize and expand tax incentives to protect household incomes, increase employment rate, encourage environmentally friendly and energy-efficient purchases, simplify tax filing and reporting processes, and prevent tax risks.

The draft law shall be formulated based on the following key principles and shall encompass the following regulatory provisions:

1. Amendments related to reduce the tax burden on individuals and households and aligning tax provisions with international best practices.

The Articles 1, 2, 3, 4, 5, and 6 of draft law include provisions to aligns the progressive tax credit and the taxation of business and capital income with international best practices.

2. Amendments related to support energy-efficient and green housing through tax policies and the regional development concept.

In alignment with the regional development concept and the Government Action Plan, the draft law incorporates provisions in Articles 3, 4, and 6 to promote balanced urban and rural development.

These provisions aim to create favorable living conditions for citizens relocating from Ulaanbaatar to regional areas and encourage the expansion of energy-efficient, accessible, and environmentally sustainable houses.

3. Amendments related to electronic pre-processing of tax return and simplification of tax payment and reporting obligations.

The draft law's Articles 1, 2, 3, 4, 5, and 6 introduce provisions that require the tax authority to provide preliminary tax return to taxpayer in advance. This measure is intended to simplify the tax filing and reporting process, reduce administrative complexity and costs, and minimize potential tax risks for taxpayers.

Approval of this draft law will lead to a reduced tax burden for individuals and households, resulting in increased real income, greater purchasing power, and improved living standards. Furthermore, it will support regional population growth, enable independent and competitive regional policies, and decrease taxpayer compliance costs.

The draft law has been developed in compliance with the Constitution of Mongolia, Mongolia's international treaties, and other relevant laws.

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