

The Tax system of Mongolia

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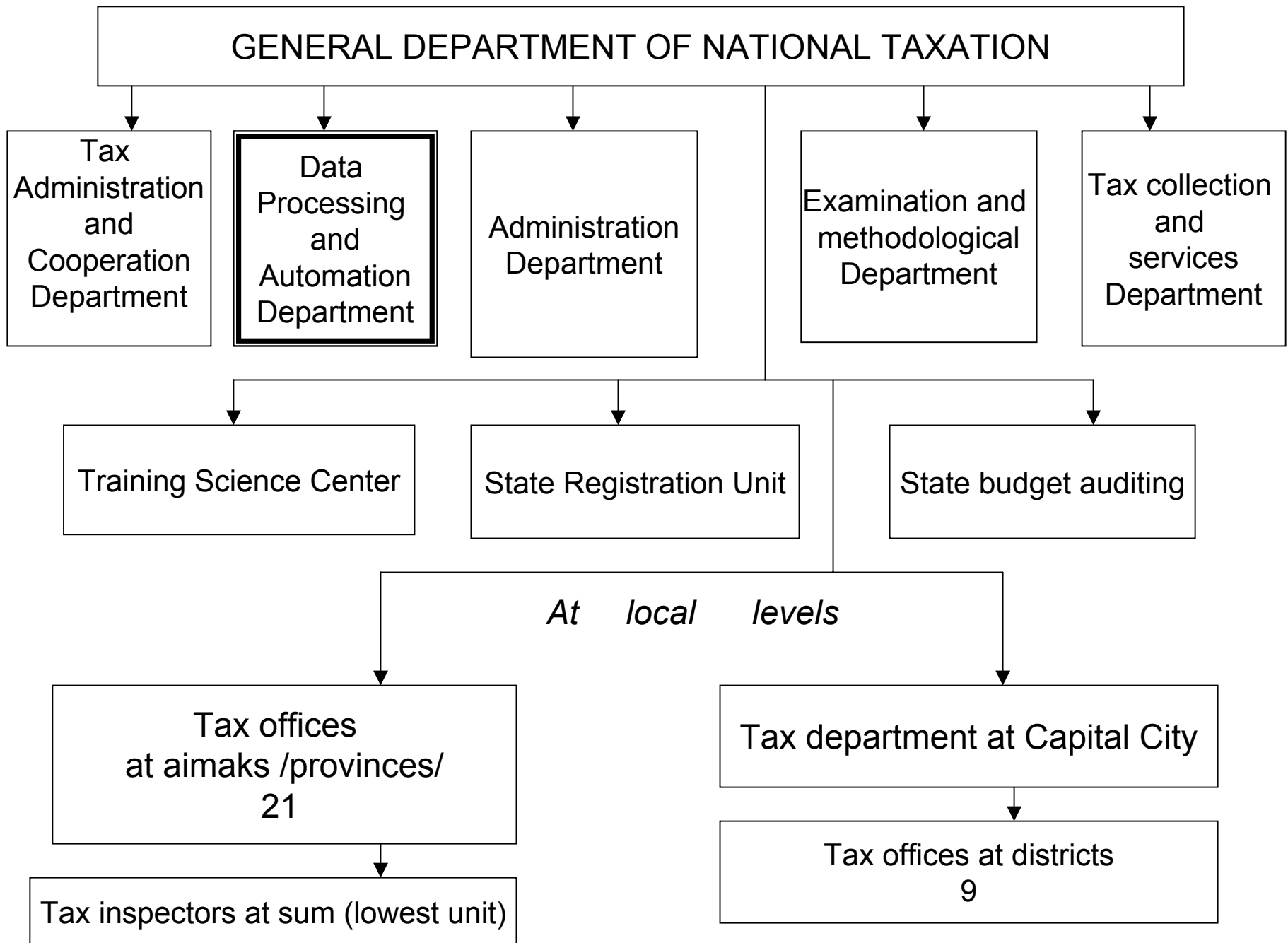
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1. BRIEF INTRODUCTION TO MONGOLIAN TAX ADMINISTRATION

1.1. General

The General Department of State Taxation (GDST) is a new organisation established as a separate government agency in 1992 reporting to the Cabinet through the Minister of Finance. It was set up to administer a number of taxes that existed before and range of new taxes introduced following reforms to the taxation and budgetary systems of Mongolia. Since its establishment, it has implemented a number of reforms that have significantly improved the administration of the tax system throughout the country.

Major taxes such as General Taxation Law, Personal Income Tax, Economic Entity and Organisation Income Tax, Sales Tax and Excise Tax were introduced in 1993. Laws on these and other taxes, totally 9 laws, were amended in April 1997 and amendments came into force on May 1, 1997. And Sales Tax was replaced by VAT in July 1998. In according to the amendments to the General Taxation Law, GDST was renamed as General Department of National Taxation (GDNT).



1. BRIEF INTRODUCTION TO MONGOLIAN TAX ADMINISTRATION

1.3. Laws on tax administration

The GDNT administers 20 types of taxes, covering the entire range of direct and indirect taxes, except Customs duty, which is governed by the Mongolian Customs Administration.

The legal underpinnings for tax administration in Mongolia are set out in two laws: The General Taxation Law of Mongolia (GTL; enacted on January 1, 1993 and amended in 2001) and the Law of Mongolia on Supervision of Tax Levy, Payment and Tax Collection (STLPTC; enacted on July 1, 1996 and amended in 2002). Together these two laws establish the general principles of the tax system, the rights and obligations of taxpayers, the powers and duties of tax officials, and the penalties and sanctions for violating the provisions of the tax laws.

2. THE TAX SYSTEM

2.2 Taxable Persons

The General Taxation Law (Art. 5) states that the following persons are taxable:

- a resident of Mongolia;
- a foreign citizen, a stateless person and non-resident, who gains income in Mongolia;
- a foreign and domestic economic entities, organisations and funds in the territory of Mongolia; and
- a permanent establishment of a foreign economic entity working for profits in Mongolia.

2. THE TAX SYSTEM

2.4 Type of taxes

State taxes:

- Economic entity and organisation income tax (15 % and 30 %)
- Value added tax (15 %)
- Excise tax
- Payment for use of mineral resources
- Personal Income tax (10 % , 20 % and 40 %)
- Transport and vehicles tax
- Immovable property tax
- Gun tax
- State stamp duty
- Payment for use of hunting resources, license fee for hunting and catching of animals
- Land payment
- Payment for use of timber from forest
- Payment for use of water mineral spring
- License fee for use of natural resources except minerals

2. THE TAX SYSTEM

2.5 Tax Year and Assessment Period

The tax year is the calendar year.

3. Decentralized data processing and the central database of taxpayer's

- The current organization of information technology/data processing in Mongolian Tax Administration is decentralized of its nature. In practice this means that there are 31 regional tax offices that collect data offline (independently). The collected data are transmitted periodically to the central database server, located in the central tax office, GDNT.
- As mentioned above, the central database at GDNT is periodically updated with collected data from the regional office databases. This of course means that the central database is not in “real-time”. Since the updates of the central database only are taking place at certain fixed points of time, the central database is not reflecting the actual situation at every point of time.

Unique system base

The present IT-architecture at Mongolian Tax Administration is Client/Server-based. Concerning software, Windows 2000 is being used as operating system, and Oracle 9i as database management system. Using Oracle developer developed application programs.

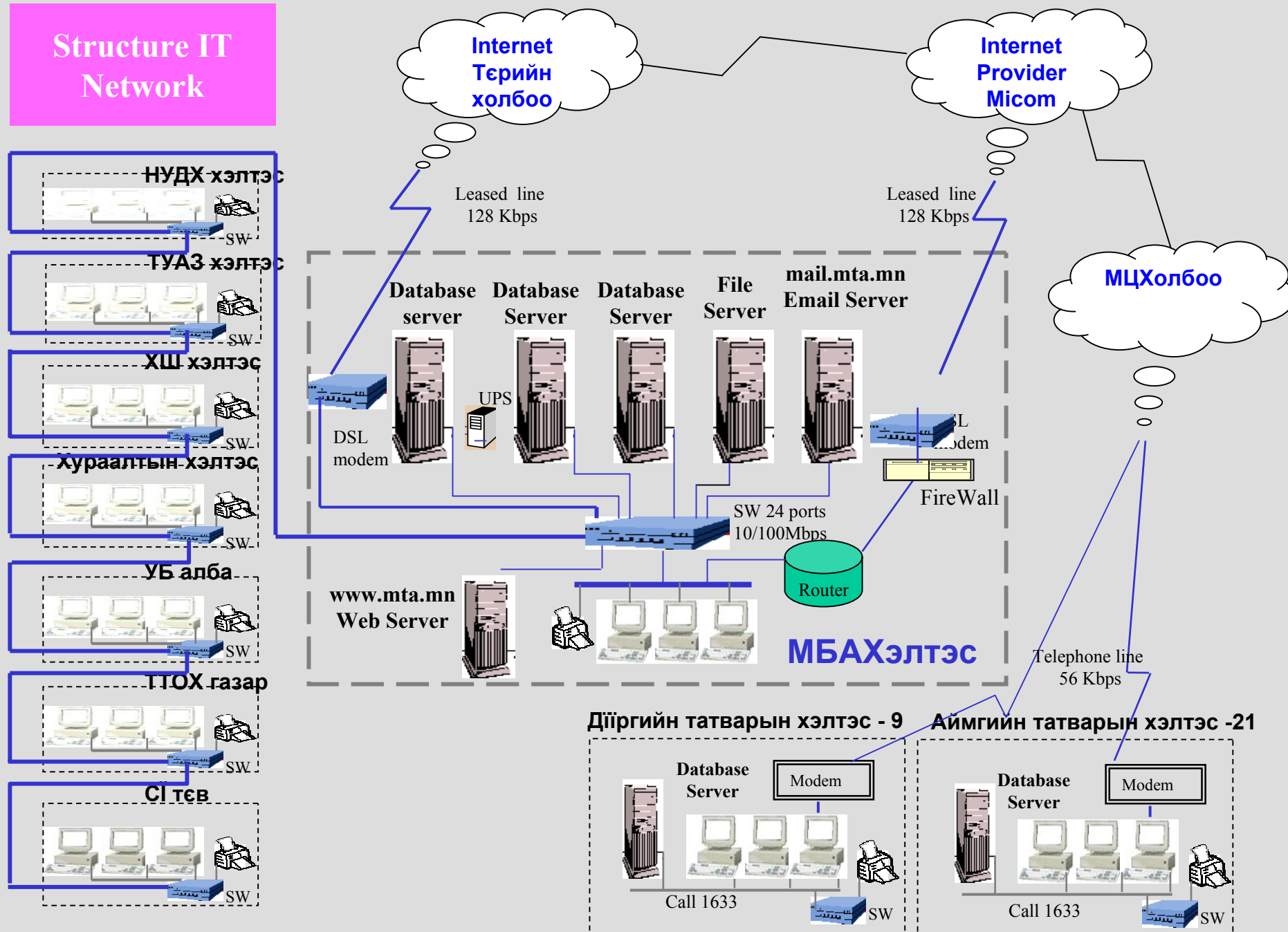
WAN based on wire telecommunication C

- Each regional tax office has a server of its own. Moreover, the data transmission speed is existing telephone lines and the previous mentioned WAN is working in dial-up mode using this wired line. Besides transferring of data from the regional local databases to the central database at GDNT, the WAN is also used for the purpose of exchanging files by e-mail, between regional offices and central office, as well as among regional offices themselves.

The LAN based on HUB

Besides the WAN, there is also a LAN (Local Area Network) established at the central level (GDNT) as well as at each regional tax office. The LAN:s being used at the regional offices are based on HUB-equipment organizing client computers as workstations, while the GDNT-LAN, rather is structured as administrating client computers from the domain server.

Structure IT Network



There are working the following systems:

- Tax compliance monitoring information system:
- Taxpayer's registration system
- Property taxpayer's registration system
- - Auto transport, Gun, Immovable property, Live stock
- Tax return's system
- - CPIT, PIT, VAT, Excise tax, Presumptive tax
- Tax audit result's system
- Tax payment's system
- Tax account system
- Tax debt management system
- Taxpayer status system

Third party information's system:

- Customs data
- Spirit sales data
- VAT invoice data
- Withholding tax return TT 11-1, TT 11 – 2
- Data collection paper

Taxpayer service system:

- On-line tax answer system
- Reference to taxpayers
- Tax accounting system

Efficient tax administration requires an efficient and modern IT-system, built upon the latest technologies in order to meet the demands and requirements of the system.

- In contrast to the functionality of the current IT-system, the external demands and expectations on an IT-system for tax administration are very high. This type of system should store data in a secure and efficient way, handle all processing of data in a stable and reliable way, provide easy and fast access to data for different end user groups, include easy-to-use user interfaces, provide the management with information for support of decisions, use meta data for different purposes and be open in all ways, but must in the same time provide flexibility, be easy to modify and adjust, and handle general security issues.

- Concerning the data communication between the tax offices, the existing wire based telecommunication network is being used for this purpose in a rather unsatisfactory way. This telecom infrastructure is not only insufficient but also really unreliable. In fact, a lot of the problems with the current system are problems that are in direct or indirect relation with bad or interrupted data transmission.
- To be fair, not only the IT-system must be reviewed in order to really rationalize the process of tax administration in Mongolia. Naturally the actual business process must be reviewed and made more efficient as well. Since a reconstruction of the IT-system/construction of a new IT-system will require a new exposition of the business process, it is also a good time to review the business process itself. In addition, the organizational structure of the GDNT should be reviewed in order to optimize the whole tax administration.

Thank you for your attention .