

APPENDIX

Appendix 1

1 Collection of Tax Information and Preliminary Inspection

1.1 Tax Information

The Mongolian system of taxation on enterprises is built on the basis of the self-assessment system, similar to such systems adopted in various other countries. Based on this system, enterprises, which are taxpayers, calculate tax standard amounts and actual tax amounts, and file them. However, under this system, fairness and equality of tax bearing cannot be expected unless tax inspection is implemented. So, without execution of inspection, public demand, namely, fiscal demand of the nation cannot be satisfied.

In other words, tax inspection plays an important role in realizing appropriate tax assessment under the self-assessment system. It is essential to execute tax inspection efficiently and effectively.

However, when the current state of tax inspection in Mongolia is compared with that of Japan, etc., the Mongolian system for tax information is considered to be insufficient. As a result, it can be viewed that the tax inspection method is inefficient. If practices for the collection and efficient use of tax information are permeated throughout the GDNT, highly efficient tax inspection is considered to become possible.

1.1.1 Necessity of Tax Information

Regarding the necessity of tax information, explanation based on a specific example will be made. For instance, if you are to inspect Company A, there may be many cases in which you will be perplexed as to from where you should start the inspection. This is presumably because information about the company is scarce. Therefore, what would be the situation if you have information about the business activities of Company A, its sales to Company B, its president's possession of an expensive car, and his purchase of a grand house? Isn't it much easier to implement tax inspection?

Speaking more specifically, if you have information that Company A records sales of 1 million Tg to Company B, it is justifiable to check during tax inspection if Company A's sales of 1 million Tg to Company B are actually posted in the settlement of accounts documents of Company A. If the sales are not posted, tax evasion has been carried out.

If examination is made as to how the president obtained money to purchase the expensive car or the grand house, and the president is pursued regarding these points, there will be a greater possibility of finding money amassed through tax evasion, if it is the case. In other words, if the profit of the company is not much, and if the president does not receive such a high salary, he/she must have been unable to purchase such an expensive car or grand house. Therefore, it can be considered that, although large profit has been obtained, such fact is hidden, or that, although the president receives a high salary, he/she does not declare such income. Accordingly, if information about Company A is collected and sorted out beforehand, efficient tax inspection will be possible. Also, there may be a case in which, during the course of tax inspection, you doubt the accuracy of the amount of Company A's payment to C (expenses paid to C). What will you do in such a case?

Usually, it is justifiable to confirm the accuracy of the amount through reverse inspection. However, there may be a case in which Company C is located very far away or in which Company C refuses inspection. In these cases, reverse inspection will be difficult. So now, what will you do?

How about turning transaction relations (in other words, expenses posted by Company A) into information data, and making such data usable in the course of inspection on the other party (Company C)?

Because A's payment to C must be recorded as income of the other party (Company C), you should use the said tax information during tax inspection on Company C and check if the paid amount is actually posted as income. If it is not posted as income of Company C, tax evasion was committed, or Company A's recording of the payment as expenses is incorrect. Therefore, it will be justifiable for you to pursue the actual development of events. If it

turns out, as a result, that C did not post what should be recorded as income, tax evasion was committed by Company C.

If it turns out that the amount is not an item that should be posted as income by Company C, Company A's posting practice was wrong, representing disguised posting of expenses and tax evasion. For this reason, if information (about the facts that Company A's disbursement of the amount as expenses is wrong, and that Company C has not received the amount) is reversely sent to the tax office in charge of Company A, it can be used as a type of clue to find Company A's tax evasion, without the need for reverse inspection. It is justifiable for you to carry out inspection again and reject the practice.

Furthermore, such information is useful for not only tax inspection but also for preliminary inspection.

To explain this, if such information is collected for individual enterprises, suspicious companies can be easily identified, if such information and financial statements submitted by the concerned companies are compared and examined at your desk.

For example, as a result of examination of collected information it was found that some company posted a profit of only 500,000 Tg in its settlement of accounts documents, although it should have recorded at least 1 million Tg based on the collected information/data. In this case, it is justifiable for you to conduct tax inspection on such a company on a priority basis only. Also, there will be cases in which collected information has no destination. Conceivable development of events in these instances can be the non-filing by the company stated in the collected information or the padded posting of expenses through the use of a fictitious enterprise by the company that was the source of the said information.

1.1.2 Content of Tax Information to Be Collected and Collection Methods

Content of tax information to be collected and collection methods are explained as follows:

(1) What information should be collected

Concerning various kinds of materials, there are limitless data, such as files regarding the establishment of companies, data files on sales, purchases, rebates, etc., and files on data collected during the inspection of other companies. It is necessary for tax officials to strive to supplement facts about tax assessment and to convert these facts into data without losing any available opportunity. Regarding collected information, a system for their supply and exchanges should be established among tax offices and national tax bureaus throughout the nation.

Study of financial statements through data files is highly important for preliminary inspection, because it clarifies advisability of inspection and helps in the appropriate selection of inspection targets.

Although the number of inspection days is limited, corporate transactions tend to become complicated. Therefore, collection of data and information, in addition to analysis of financial statements, is quite important in order to effectively conduct inspection. For this reason, effective data and information shall be collected on all occasions, such as during the inspection process, and collection shall be carried out from the content of publicity activities done through newspapers, magazines, TV, radio and etc.

Content of data to be collected and collection methods shall be as shown below.

(a) Statutory information

After introduction of a statutory receipt system, make it an obligation to prepare a data file based on statutory receipts submitted to GDNT, and strive to collect information through this means.

(b) Collection of information on the occasion of tax inspection

During tax inspection, select not only inspection targets but also their transaction partners in which failure to file returns are anticipated, and form data files concerning amounts of transactions, content of transactions, transaction data, etc. It is necessary to make the formation of such data files an obligation.

Table 1-1 Tax Information Data File (Form)

1	Transaction Partner
	(1) Name of the enterprise
	(2) Address of the enterprise
	(3) Registration No.
2	Content of Transactions
	(1) Date of transaction
	(2) Content of transaction ① sales ② purchases ③ expenses ④ others
	(3) Amount of transaction
3	Collection Source
	(1) Name of the enterprise
	(2) Address of the enterprise
	(3) Registration No.

(c) Collection of information from government agencies, etc.

Efforts shall be made to file government agency information useful for tax inspection, such as registration data regarding purchases of residences and the like. Because it cannot be said that GDNT is in such smooth cooperative relations with other government agencies, strive to improve relations with other government agencies.

(2) Methods of collecting and using tax evidence materials

It is important to strive to catch tax-related data and to convert them into files, losing no opportunity. Concerning collected tax information data, establish a system to mutually exchange and provide them throughout tax offices and national tax bureaus in

the country.

Specifically, enter information in tax information file (papers) and convert them into fixed materials. At least the name of the company, regarding which the data shall be used, its address, telephone number, content of transactions, and information source/address.

To explain the method of using these data more specifically, individual national tax bureaus and tax offices shall appoint persons in charge of sorting out information materials (information officials) within their organizations. The information officials shall classify data collected during tax inspection into those of companies under the charge of the tax office concerned and those of other tax offices or tax bureaus of the GDNT.

With regard to tax information file files to be put under the charge of other tax offices and tax bureaus of the GDNT, deliver them to the data file officer to be appointed within the headquarter of the GDNT. Therefore, such data from the entire country will be gathered at the desk of this GDNT officer, and the officer should send these data to individual tax officials or tax bureaus of the GDNT.

Information officials of individual tax offices and national tax bureaus shall gather data sent from the headquarter of the GDNT and data regarding companies under their charge (those not sent to the information file official within the headquarter of the GDNT), sort them out according to individual taxpayers, file them in "tax record" of these tax payers, and accumulate them.

The information officials shall establish and improve setups to develop, collect and analyze information necessary for tax inspection. It is necessary to establish these systems to develop, collect and analyze such information and data collaboratively, extensively, and organizationally throughout the nation.

(3) Methods of utilizing tax information

Collected materials should be utilized in preliminary inspection.

Study of financial statements based on tax information files is highly important for

preliminary inspection, as stated before, because it clarifies the advisability of tax inspection and accurately selects inspection targets.

Although the number of inspection days is limited, corporate transactions tend to become complicated. Therefore, collection of data and information, in addition to analysis of financial statements, is quite important in order to effectively implement inspection. For this reason, effective data and information shall be collected on all occasions, such as during an inspection process, and collection shall be carried out from the content of publicity activities done through newspapers, magazines, TV, radio, etc.

Depending on the cases, it may be possible to pickup a clue in finding tax evasion by checking information and content of declarations. If sales of 500,000 Tg are declared, although the total of sales, learned through information files, is 2 million Tg, it is considered that there is a possibility of sales record curtailment, namely, tax evasion. The suspicion is serious, but it cannot be said at this stage that the company actually committed tax evasion.

It is possible that some error was implemented at the data source (namely, the company through which the related information was obtained). Accordingly, the suspected company shall be made the target of actual inspection on a priority basis. The financial content of such a company will be examined in connection with the suspicion. The above are the details of specific information and data.

1.2 Preliminary Inspection

Next, explanation will be made regarding preliminary inspection (or desk-top inspection).

1.2.1 Meaning of Preliminary Inspection

With regard to the definition of the term, inspection mainly designed to select companies that have considerable possibilities of tax evasion is referred to as “preliminary inspection.” Because this inspection is carried out at the desk in a tax office and the like without visiting the company concerned, it is also called “deskwork inspection.”

1.2.2 Purposes of Preliminary Inspection

Preliminary inspection may be considered to be prior preparations to accurately determine problems with the content of tax return by the target company, and to carry out efficient on-site investigation with regard to these problems.

For this objective, the outline of the inspection target company should be grasped based on the analysis and examination of written tax return submitted by the target company, as well as various kinds of data, information, etc., accumulated at tax offices, etc. Specific inspection course and plan should be sufficiently prepared to set what and how actual inspection will be executed.

In the case of preliminary inspection under the setup for simultaneous inspection of corporate income tax and consumption tax, the consumption tax-related study should also be carried out at the same time.

Although preliminary inspection is implemented within a limited period of time, it shall be enforced precisely and accurately, based on the suitable recognition that its appropriateness/inappropriateness will have great effects on the progress and results of ensuing inspections.

1.2.3 Procedure for Preliminary Inspection

In the course of preliminary inspection, conduct multilateral inspection regarding the content of the written tax return for the business year under review while considering the reason for the selection of the company concerned as the target. Specifically, extract suspicious matters, select inspection items to be investigated concentratedly among them, and set actual inspection methods for efficient examination.

The inspection shall be carried out under the following procedure.

- 1) Grasp the content of the company's business, its financial condition, degree of its understanding of taxes, characteristics of its representative, and the like through the written declaration of corporate income tax and the "tax record" of the company.
- 2) Compare figures for principal items among settlement of accounts statements and the detailed statement of the breakdown of accounting items with those of the previous year (by writing the latter figures in red pencil) and check increases/decreases of the figures.
- 3) Carry out study based on the financial analysis of the gross profit ratio, inventory turnover, and the like.
- 4) Examine the content of past declarations, examination and guidance content, etc., based on the tax record of the company.

Based on the outcome of the preliminary inspection, determine whether to implement on-site investigation or omit inspection for the fiscal year concerned. For this reason, select on a priority basis cases (a) in which information or inspection data exist for illegal transactions, (b) in which operational scales are expanding remarkably, and (c) in which transactions are held with other inspection targets.

Next, examine the financial condition of the company based on financial statements submitted by the company and its "tax record,"¹ and extract and study abnormal figures or unjust portions through "tax analysis (managerial analysis),"² such as "ratio analysis."

For the related purpose, enter past tax returns and inspection results of companies in their tax records, classify companies under three classes (hereinafter referred to as "taxpayer classification by compliance level"³), based on such entry records, further classify them in accordance with their sales value (hereinafter referred to as "taxpayer classification by sales amount"⁴), and manage taxpayers through these means. In other words, in order to raise the efficiency of inspection, adopt for inspection target a screening priority inspection business formula composed of the combination of the "taxpayer classification by compliance level," based on the classification method by compliance level proposed below, and the "taxpayer classification by sales amount" founded upon the sales-based classification. In this case, furthermore, select booming business lines (hereinafter referred to as "priority inspection business formula"⁵) by analyzing the economic situation. Selection of targets shall be implemented through overall judgment of these inspection results.

Hereunder, (1) study based on the tax record, (2) study through data and information, (3) the method of examining related items, and (4) tax analysis methods will be explained.

(1) Study based on the tax record

A "tax record" refers to a table of records on tax payment by a taxpayer. It shows accounting figures of the said taxpayer for the past several years, allowing comparison of these years. Thus, the principal content of the past tax inspection is stated in this table.

- Note: 1. Refer to 1.2.5 (1)
2. Refer to 1.2.3 (4)
3. Refer to 1.2.5 (2)
4. Refer to 1.2.5 (3)
5. Refer to 1.2.5 (4)

In the course of preliminary inspection, tax returns and tax record of the actual on-site inspection target should be collected under the direction of a manager of the tax inspection sector, who should examine, study, and supplement abnormal figures and unjust portions, checking the degree of importance of the case. At the stage in which preliminary inspection is completed, declarations should be divided into “on-site inspection-required cases” and “inspection omission cases.” The reasons are that it is impossible to examine all enterprises and that there is no need for it.

In this way, after classifying the results of preliminary inspection into on-site inspection cases and inspection omission cases, and after entry of classification results in the tax record, prepare an office plan for on-site inspection.

(2) Study based on information files and others

In order to secure an appropriate level of tax returns, it is essential to collect information on transactions, assets and others of taxpayers jointly with proper, accurate tax inspection.

Regarding this, explanation will be made in [1 (2)] shown below.

Effective data and information should be collected through all opportunities, for instance by collecting, during on-site inspection of an enterprise, data on its transactions with other companies that may be engaged in the omission of tax returns. It is necessary to collect such data from the contents of individual enterprises’ publicity activities through newspapers, magazines, TV, radio, and other means.

(3) Method of examining related items

The method of examining related items refers to a method of investigating relations between sales and gross profit, between purchases and gross profit, or between purchases and purchasing-related transport expenses, for example.

If gross profit is smaller compared with sales, inspection should be carried out as to

whether or not exclusion of sales, posting of fictitious purchases, or exclusion of inventories were implemented. Of course, if a company lowered sales prices, if the purchasing price rose, or if the company took steps to reduce inventories, these represented cases with justifiable reasons. Therefore, when such a company prepares settlement of account documents, it is necessary for this side to conduct analysis and study in advance. It is desirable to state results of such analysis in the tax record, if possible.

If personnel expenses and subcontract cost are at high levels compared with sales or production amounts, attention should be made as to:

- Whether or not sales omissions have been carried out.
- Whether or not fictitious posting of personnel expenses or subcontract cost is committed.

At any rate, it is frequently stated that “business management is a kind of common sense.” If a business operator pays a fixed amount of personnel expenses, he/she plans to attain some level of production, and if he/she pays a fixed amount of subcontract cost, he/she considers how much profit should be gained from the related subcontracting action. Also, if the business operator pays purchasing transport expenses, he/she does so based on a generally accepted price level.

Accordingly, a figure greatly different from past figures does not suddenly appear, and if compared with other companies in the same business line, such an abnormal figure usually does not arise. If an abnormal figure is shown, it will be actions based on common sense to implement tax analysis or tax inspection, based on the suspicion that the abnormal figure may be due to sales exclusion, posting of fictitious purchasing, or posting of fictitious expenses.

(4) Tax analysis method

Tax analysis methods can be divided into “ratio-based method,” and the “comparison method.” The ratio of gross profit on sales is the ratio obtained by dividing gross

profit with net sales (amount derived by deducting sales discount and rebates from gross sales), and if this ratio is abnormally low, attention should be paid as to whether or not sales exclusion was committed, whether or not fictitious posting of purchases was carried out, or whether or not exclusion of inventories was implemented. It goes without saying that the inverse number of this ratio of gross profit on sales is the sales cost ratio.

If labor cost is divided by net sales, the result will be the labor cost ratio, and if subcontract cost is divided by net sales, the outcome will be the subcontract cost ratio. And if these are abnormally high, analysis or study should be made to check for fictitious labor expenses or fictitious subcontract cost.

The “ratio-based method” represents a formula for comparing these ratios with those of previous terms or those of other companies in the same business line, while the “comparison method” is a formula in which amounts themselves are collated with those in the previous terms, etc.

(5) Presumptive inspection method

This refers to an inspection method in which estimated amounts are used in checking if posted figures are appropriate or not. Namely, estimates obtained based on objective and reasonable standards and methods and amounts posted in financial statements are compared and examined, existence/nonexistence of abnormal figures or appropriateness/inappropriateness of the posted figures is studied based on the comparison results.

The rational and reasonable inspection methods, based on estimates of revenue amounts, include the methods shown below. In addition to these, there are also the “living expense-based backward calculation method,” which is to conduct backward calculation based on the standard living expenses, and the “balance-with-a-similar-company-based method,” in which estimation is implemented based on comparison with similar figures of another company of approximately same

size, in the same business line and in the same area.

1) B/S method

This is a method in which net asset amount (derived by deducting liabilities from assets) as of the beginning of the term is subtracted from the net asset amount as of the end of the term, and the balance is adopted as the corporate income during the said term. In other words, this is a method of inspecting income based on the asset method. Here, let us call this method the "B/S method." This method has a shortcoming of involving technical difficulties in determining actual amounts of assets and liabilities at the beginning and ending of the term concerned.

Therefore, a more reasonable method based on the parallel use of the "P/L method" explained below for supplementation can be considered.

2) P/L method

If income based on cash or bank deposits or expenses are clarified, revenue amount can be calculated by supplementing or modifying the income/expenditure based on an accrual basis. Also, if one of revenue or expenditure is recognized as appropriate, it is possible to calculate a revenue amount recognized as appropriate, by estimating unclear or incomplete portions and comparing them with other portions. Here, let us refer to this inspection method to examine the appropriateness/inappropriateness of the posted revenue figure based on the calculated revenue amount as the "P/L method."

Namely, this is an inspection method to examine appropriateness/inappropriateness of a revenue amount using the "profit/loss method." By utilizing this method and the aforementioned net asset increase/decrease method in parallel or supplementation, more reliable inspection can be carried out.

3) Per-unit method

The inspection method of estimating revenue or income amounts based on fixed

“efficiency” and “income standard ratio” and examining the appropriateness/inappropriateness of posted amounts can be widely utilized in preliminary inspection. Here, let us call this inspection method the “per-unit method.”

“Efficiency” refers to the ratio of effects that external factors, such as the number of employees, number of machines, and sales area have on revenue amounts. Specifically, it is expressed by means of per-employee sales, per-machine unit sales, and per-unit floor sales. In other words, “efficiency” means the ratio of sales for each unit of items for the estimation of sales amounts.

“Income standard ratio,” meanwhile, is an income ratio obtained by averaging and standardizing the actual figures of other companies in the same line, to estimate a revenue amount based on sales.

In the course of preliminary inspection, check for abnormal figures among posted sales or profit, or examine appropriateness/inappropriateness using these methods. The examination of revenue amounts, based on efficiency ratios in “preliminary inspection tables,” is tantamount to that type of checking.

As items for the foundation of sales estimates to be used for efficiency, those that can be easily judged and are in close correlation are chosen. Accordingly, they are different from business line to business line, so it is impossible to list them down generally. This being the case, only principal cases are shown in Table 1-2 as reference information.

Table 1-2 Efficiency Examples for Individual Business Lines

Line of business	External element	Efficiency item
Construction	<ul style="list-style-type: none"> • No. of employees • Labor expenses • Material consumption • Material cost • Work area 	<ul style="list-style-type: none"> • Work revenue per employee • Work revenue per labor cost unit • Revenue per unit of material consumption • Work revenue per unit material cost • Work revenue per 10m² of work
Manufacturing	<ul style="list-style-type: none"> • No. of workers • No. of main machinery units • Power consumption • Material consumption • Machinery repair cost 	<ul style="list-style-type: none"> • Sales per worker • Sales per unit of principal machines • Sales per 1 kWh of power consumption • Sales per unit of material consumption • Sales per unit of machinery repair expenses
Wholesaling	<ul style="list-style-type: none"> • No. of employees • Area of buildings • No. of operating dates • Inventory goods • Packed item transport cost 	<ul style="list-style-type: none"> • Sales per employee • Sales per 10 m² of buildings • Sales per operating day • Sales per unit of inventory goods • Sales per packed item transport cost
Retailing	<ul style="list-style-type: none"> • No. of employees • Sales floor area • No. of operating days • Inventory goods • Packaged product consumption volume 	<ul style="list-style-type: none"> • Sales per employee • Sales per 10 m² of sales floor area • Sales per operating day • Sales per unit of inventory goods • Sales per unit of packaged product consumption volume
Eating/drinking Establishments	<ul style="list-style-type: none"> • No. of employees • No. of customer chairs • Customer floor area • No. of customers • No. of operating days • Lighting consumption volume • Water consumption volume 	<ul style="list-style-type: none"> • Sales per employee • Sales per customer chair • Sales per customer room • Sales per customer • Sales per customer on an operating day • Sales per kilowatt of lighting energy consumption • Sales per unit consumption of city water
Transport Business	<ul style="list-style-type: none"> • No. of vehicles • No. of employees • Fuel consumption • Traveling distance • Repair expenses • Fuel cost 	<ul style="list-style-type: none"> • Transport revenue per vehicle • Transport revenue per employee • Transport revenue per unit consumption of fuel • Transport revenue per 10 km covered • Transport revenue per unit repair expenses • Transport revenue per unit fuel cost

1.2.4 Selection Standards

As seen above, inspection targets shall be selected based on corporate income tax returns and tax records. In this case, items that will be selection standards should be set in advance.

Cases that fall under 1st selection items shall be made the targets of on-site inspection without exception. With regard to these cases, specific examination items shall be analyzed and studied, using the "preliminary inspection table."

Next, standards for selecting inspection subjects with the next degree of priority are 2nd inspection items. In this case, the items should be operated flexibly with the actual work state taken into account. One conceivable approach is not to select companies that fall under these items as inspection targets but to pool them in the order of declarations, and to make cases with higher priority actual inspection targets sequentially. Accordingly, cases with lower priority may be retained as they are, and because the actual examination rate has a bearing on this, their inspection may be omitted or deferred until later.

The 1st selection standard items are as follows:

- ① Cases in which there is information about unjust transactions
- ② Cases in which the company is believed to be engaged in unjust transactions based on information obtained in the course of on-site inspection of another company and etc.
- ③ Cases of failing tax returns
- ④ Cases in which settlement of account documents are recognized to include padded figures
- ⑤ Cases in which operational scale remarkably expanded as exemplified by a new establishment or expansion of plants, stores and etc.
- ⑥ Cases in which extremely abnormal figures were found in the term's financial statements and reasons for them are unknown

The 2nd selection standard items include the following:

- ① Cases in which the revenue amount is considered to be too little or expenses are considered to be too much, when compared with other companies
- ② Cases in which the ratio of gross profit on sales is extremely lower than other companies or the company's past figures
- ③ Cases in which sales and profit amounts are unchanged, and, therefore, not reflecting the overall business conditions.
- ④ Cases in which inspection was omitted for several terms (3 to 5 years), and the company has become the circulation target
- ⑤ Cases in which extremely dishonest, unjust, fictitious, or hiding practices were committed, so tax records are in bad shape
- ⑥ Cases in which this is the 1st settlement of accounts after establishment of the company
- ⑦ Cases in which the company falls under the priority inspection businesses

Selected tax returns should be collected under the direction of a senior inspector in the inspection enforcement sector, and he/she shall study on the final degree of on-site inspection necessity, determining the inspection target enterprises.

The 1st selection is to choose companies with a high degree of inspection necessity, namely, companies that should be inspected without exception. The 2nd selection is to choose cases that will be made targets after the 1st selection.

1.2.5 Foundation Improvement for Preliminary Inspection

(1) Preparation of a tax record

The "tax record" is a tax-related record of a taxpayer, and it is a kind of tax-related register. To make it a means of simplification or standardization for reference in the course of tax inspection target selection or actual inspection, prepare them through the following steps.

- 1) Enter matters actually rejected in tax inspection, declared matters, and content of tax returns in a tax record form, add other data in the file of the tax record, and concentrate information about the said company in that file.
- 2) Utilize the tax record as a central means not only in rough screening of the inspection subject or preliminary inspection, but also in the course of actual inspection or even after the completion of inspection. First, at the stage of rough screening, use it to select inspection target companies, and at the stage of preliminary inspection, employ it as basic data for determining inspection items. Also, in the future, the tax record shall be used to form a computer database.
- 3) Improvement of entries into the tax record shall be as follows:
A sheet of thick paper shall be folded into two; a form in which entry items are printed; matters determined between the undertaking of inspection and its end; and the results of inspection to be input on the four resultant pages should be prepared.

(a) The 1st page

Enter the content of principal products handled, the states of employees, equipment, representative, and his family, as well as other matters necessary to understand the overall situation of the business. Thus, this page shall be used to allow the grasping of the overall state of the business at a glance.

(b) The 2nd and 3rd pages

Enter figures for items of profit/loss statements and balance sheets in a manner in which their comparison for several consecutive years will be made possible. Further, enter the ratio of gross profit on sales and other management analysis ratios for several years, so that these ratios can be compared with one another. In addition, enter the details of suspicious matters and the like. In other words, make it possible to grasp the financial condition and operational achievements, based on the comparison of actual figures and analysis ratios and also to allow the discovery and extraction of doubtful or abnormal portions.

(c) The 4th page

Enter matters of filing guidance, content of inspection, results of inspection, and matters to be particularly noted in subsequent years in a detailed manner. In other words, this page should be used to show the content of inspection and examination results.

(2) Introduction of a “Taxpayer classification by compliance level” in inspection target selection

Based on past tax returns, tax payment achievements and inspection results divide all enterprises into three classes, namely, Class A (cases for which no examination is required), Class B (cases of 3 to 5 year cyclical contacts), and Class C (cases to be continually contacted). In this way, a system for inspecting notorious and high-class enterprises on a priority basis at the stage of preliminary inspection should be adopted.

(a) Class A companies (inspection not required)

Companies requiring no inspection shall be companies that fall under the following standards: ① enterprises whose past accounting content and tax return content were clear and appropriate, ② enterprises without past tax rejection records, ③ enterprises without tax delinquency records, ④ enterprises which or whose representative is free from bad reputation and which are cooperative in tax payment, ⑤ small-scale enterprises that are categorized as low-level class in terms of sales classes, and ⑥ enterprises under business suspension or enterprises during disbandment or dissolution.

Regarding these companies, tax inspection shall not be implemented for 5 years after judgment, in principle, and rating shall be set again after the passage of 5 years.

(b) Class B companies (enterprises to be contacted cyclically)

Cyclical contact companies are companies that fall under the following standards: ① enterprises that receive simple correction or rectification orders each time, ② enterprises whose assessment amounts are close to the industry average but there

remain some suspicions, and ③ enterprises which or whose representative is free from bad reputation but requires cyclical contacts. These companies shall be inspected at an interval of 3 to 5 years in principle. However, enforce on-site inspection, if suspicious or abnormal figures/portions are found at the stage of preliminary inspection or if information or data on unjust actions are obtained.

(c) Class C companies (enterprises to be contacted continuously)

Continual contact companies are companies that fall under the following standards:

① enterprises that were always subject to correction orders involving large amounts, ② enterprises regarding which the continual danger of unjust calculation or declarations is involved, ③ enterprises which or whose representative has a bad reputation, and ④ enterprises against which information/data about unjust actions always exist.

These companies shall be carefully controlled continually, by conducting precise tax inspection every year, even if nonexistence of problems is surmised, in principle.

(3) Introduction of a “Taxpayer classification by sales amount” in inspection target selection

Enterprises shall be divided into 5 classes, based on the amounts of sales. Companies belonging to Classes 1-2 shall be categorized as low-class companies, those belong to Classes 3-4 as middle-class companies, and those belonging to Class 5 as high-class companies. In this connection, high-class companies should be chosen as inspection targets on a priority basis, while low-class enterprises are basically omitted as targets of tax inspection. Middle-class companies shall be made the subjects of cyclical examination. However, if there are suspicions or confirmed data of spotty declaration or dishonest tax evasion, implement inspection even in the case of middle- or low-class enterprises. This is for the purpose of effectively utilizing a limited number of tax inspectors.

(4) Specification of “priority inspection business” in inspection target selection

Specification of priority inspection business is a method of effectively utilizing a limited number of tax inspectors. Since contacting all taxpayers is impossible under existing conditions, inspection shall be focused on enterprises in the most pertinent business lines, in addition to companies that committed large-scale and dishonest tax evasion or had poor filing/inspection result cases.

Specification target business lines are booming business lines at the time, in principle, and if enterprises in such business lines exist throughout the nation, such business lines should be specified by GDNT. In accordance with the specification by GDNT, individual national tax bureaus and tax offices should add other business lines based on the characteristics of their individual areas and conduct inspection on a priority basis on these business lines.

1.3 Diversification of On-Site Inspection Methods

Under the self-assessment system, whether or not a discrepancy arises between the “tax amount based on a company’s tax return” and the “tax amount based on tax-related inspection” poses a major problem. There are a variety of causes for the occurrence of differences, but the most typical one may be the difference between the taxpayer and the tax inspector regarding recognition of facts or the interpretation/application of tax laws.

The self-assessment system is a system in which an enterprise independently calculates the tax amount, declares the amount, and pays the amount to the tax office. This arrangement itself can be given a positive evaluation, but because tax laws are highly complicated and difficult to understand, it may not be easy for all taxpayers to correctly understand the tax laws and conduct accurate tax payment. For this reason, there is no guarantee that all taxpayers will correctly understand the laws and pay taxes appropriately. Furthermore, there are many cases in which a taxpayer does not observe tax laws when filing returns or paying taxes. In this event, fairness of tax imposition will be undoubtedly impaired if the situation is left uncorrected. Because many cases of failure to file or make payment are seen in Mongolia, a serious sense of unfairness has begun to arise.

The basics of tax inspection are to check if calculations by a taxpayer are correct in view of tax laws. Necessity of tax inspection exists in this point.

Next, it is essential to execute tax inspection efficiently and effectively, so what becomes required are “tax evidence data.” Under the present actual tax administration of Mongolia, however, the tax accounting system has not sufficiently permeated, so the system for tax evidence data has not yet been adequately founded. As a result, the tax inspection method is inefficient. If a tax evidence data system is introduced into the entire economic society, highly efficient tax inspection will become possible. For taxpayers, such data can be the basis or its contention during tax inspection, so the tax evidence data system has a merit of being viewed as the non-occurrence of unreasonable tax imposition by tax authorities.

1.3.1 Diversification of Tax Inspection Methods

It is desirable to check, through tax inspection, if declarations by all enterprises are correct in view of tax laws, but in reality, such checking is impossible because of the limitation of the number of tax inspectors, as well as time.

Therefore, it is necessary to diversify the kinds of tax inspection in line with various applications and purposes. As such, it is considered desirable to classify tax inspection into “compulsory inspection,” “special inspection,” “general inspection,” and “simplified inspection,” and utilize these kinds of inspection in accordance with the application and purpose of study.

(1) Compulsory inspection

Compulsory inspection is the case where inspection is required to be implemented when a certain enterprise is suspected of a tax crime, and it is necessary to examine such suspicion. This inspection is so-called “verification,” which is implemented in the same manner as that of general inspection to be explained later, but it is a form of inspection in which tax inspectors may enforce extraordinary checking, investigation, or seizure after obtaining the approval of a court judge. This inspection is designed not only to study the appropriateness/inappropriateness of a taxpayer’s declaration but also to accuse the target taxpayer in order for a public prosecutor to indict.

Carry out secret examination in advance, and start inspection (investigation) of the head office, branches, plants, the residence of the president, business partners, financial institutions including banks, etc., all at once, based on evidence obtained during the secret examination. Usually, conduct this investigation fairly forcibly, after presenting an extraordinary investigation/seizure permit.

(2) General inspection

This is a general tax inspection carried out by checking accounting books, asking

questions, and examining tax evidence data based on the premise of the approval and cooperation of the taxpayer concerned. General inspection is implemented through actual goods confirmation examination and account book research, but there is a possibility that the actual state of taxpayers cannot be fully grasped.

(3) Special inspection

General inspection has the demerit of unfeasible sufficient investigation compared with compulsory inspection. Therefore, an intermediate degree of inspection between compulsory inspection and general inspection, called special inspection, is implemented.

(4) Simplified inspection

Simplified inspection is a kind of inspection sometimes called "one-point inspection." For instance, inspection on a specific item of some taxpayer falls under this category. Accordingly, the number of inspection days is less compared with other kinds of inspection.

1.3.2 Holding of Excellent Inspection Study Meetings

With regard to inspection cases in which new violating practices or illegal actions common throughout the industry are found, individual national tax bureaus should establish a system of holding "excellent inspection study meetings" to seek the sharing of knowledge about inspection means, to commend related tax inspectors, to improve incentives in tax inspection, and to induce tax inspectors to further study inspection methods.

Subjects of these excellent inspection study meetings should be inspection cases in which points of observation were good, or inspection methods were unique and ingenious, so that violations involving large amounts were discovered. For the purpose of having

commendation cases used as reference by other tax officials, lopsided selection in business lines or corporate sizes should be avoided, and subject cases should be chosen from as wide viewpoints as possible.

Furthermore, the Director General of the GDNT or directors of bureaus should give commendations to tax inspectors with excellent achievements so that the introduction of their own inspection cases and their own announcements on these cases will be viewed as the highest honor in the tax collection service.

1.3.3 Improvement of Consulting/Guidance

Not only tax inspection but also consulting and guidance for taxpayers should be implemented in parallel with tax inspection. There are many taxpayers who lack knowledge about taxes, so it is important to guide these taxpayers into making correct declarations before finding fault with their declarations during tax inspection. From this viewpoint, it is necessary to establish a system of providing free tax consultation to assist taxpayers when they have questions in filing returns.

It is also necessary to introduce correct methods of tax return or clarify erroneous interpretation of tax laws to newly inaugurated enterprises or companies burdened with problems commonly seen in the industry concerned, with a view of guiding them so that they will not commit related errors in the future.

1.3.4 Improvement of Tax Inspectors' Ability

Efforts should be made to assist tax inspectors' examination ability through various kinds of training (providing tax accounting knowledge, methods of preparing data files, know-how to utilize tax evidence data, and inspection techniques). With regard to tax inspectors who recorded excellent achievements, the aforementioned excellent inspection study meetings should be held to announce their achievements in order to spread their methods to other

inspectors and to share their methods as common know-how, while they are commended by the Director of the GDNT or directors of national tax bureaus.

1.3.5 Grasping of Those Who Fail to File a Tax Return

To grasp those who fail to file a tax return, use enterprise/association ledgers, lists of exporters/importers at customs offices, lists of taxpayers enjoying preferential tax treatments, and individual examination steps.

The aforementioned inspection is related to corporate income tax, but tax collection efficiency will be enhanced if VAT-related examination is simultaneously implemented.

Appendix 2

GENERAL TAX LAW (Proposed)

SECTION 1

General Provisions

Article 1. Purpose of law

- 1.1 The purpose of this law is to define the tax system of Mongolia, general principles of taxes, fees and payments, obligations and responsibilities of taxpayers, the legislative grounds of tax administration and tax official's operation as well as to set up regulations of tax assessment, payment and tax investigation and to regulate the relations arising from taxpayer fulfillment the tax legislation.

Article 2. Legislation on Mongolian tax law

- 2.1 Legislation on General Tax Law comprises the Constitution of Mongolia, this law and other legal acts enacted in conformity with them.
 - 2.1.1 In order to implement the tax legislation the General Department of National Taxation (hereinafter referred to as "GDNT") shall be authorized to issue methods, regulation and recommendation. This will not be ground to amend tax law.
- 2.2 If the international treaties of Mongolia stipulate otherwise than the Tax laws of Mongolia, the priority is given to the International treaties.
 - 2.2.1 The GDNT responsible for all operations related with conclusion tax treaties and their ratification and implementation.
- 2.3 Relations arising from introduction, imposition and amendments of taxes, and its deduction, exemption and payment shall be regulated by only tax laws.

Article 3. Tax terms definition (new provision)

- 3.1 All terms stipulated in this Law should be defined as follow:
- 3.1.1. The term “taxable income and taxable items other than income are hidden” means such violations as transferring taxable income and taxable items other than income to other economic entity and citizen without any records in balance sheet and tax report, intentional making incorrect records on its, conclusion of illegal negotiations, rejection to submit required documentation, as well as making forged documents for the tax avoidance purpose.
- 3.1.2. The term “taxable income and taxable items other than income is reduced intentionally” means such violations as willful recording reduced quantity or amount of taxable items in balance sheet, tax report etc., making corrected documents for the reducing taxable income purpose, as well as over estimation of expenses or under estimation of incomes.
- 3.1.3. The term “amount and quantity of tax base are reduced unintentionally” means unintentional mistakes such as number error occurred during filling financial documents.
- 3.1.4. The term “the obligation of tax payment shall be suspended in case of the adequate tax law was canceled” means the time after the fixed date of final tax payment when the State Ih Hural introduced tax law suspended adequate tax law.
- 3.1.5. The term “taxpayer who avoided from paying taxes, interest and fine” means that given taxpayer didn’t:
- Pay taxes within the required time
 - Submit correct address to the tax administration
 - Submit new address to the tax administration
 - Dispatch any calculations, statements connected with the tax levy and payment of taxes, to the tax administration many times
 - Ignore the tax administration invitation without valid reasons
 - Submit the residential address to the tax administration though the court not decided this taxpayer as missing.

- 3.1.6. The term “invalid contract and negotiation” means negotiating with mentally diseased man, child or person who not available to make decision due to weak mind or position, as well as negotiation under the threat or blackmail.
- 3.1.7. The term “income earned by carrying on production and service activities, which were prohibited by the legislation” means income earned by violation of the laws related to the production and service activities.
- 3.1.8. The term “made obstacles” means the intentional infringements such as failing to submit required financial documents to the tax inspector while conducting his/her duty, not providing the tax inspector the opportunity to access to the working premises, facilities and storage, defiling counts, as well as not giving permission to carry out counting, examination and making surveillance.
- 3.1.9. The term “made protests” means the intentional infringements against tax inspector in connection with his/her duty such as striking, pushing, splash with any liquid, making psychic and physical influence and threat.
- 3.1.10. The term “transferred income” means salary, wages, payments and other similar remuneration (not include withholding taxable income) transferred by citizen, economic entity, organization to the private account or mediator economic entity, organization upon the works executed by other citizen, economic entity, organization according to the contract.
- 3.1.11. The term “taxpayer economic entity, organization” means cooperatives, companies and partnerships exploiting such taxable items as revenue, assets, goods, activity, services, concrete right, land, natural and mineral resources, and registered in tax administration and other adequate organization according to the Mongolian legislation.
- 3.1.12. The term “profit purpose organization and fund” means that income earned by carrying on production and service activities for providing the provisions of main activity stipulated by non-governmental organization and fund’s charter, over 50 percent of total expenses irrespective of ownership form.
- 3.1.13. The term “the tax payment is made under undisputable procedure” means that in case that the taxpayer failed to make payment of tax, interest and fine within required time defined by tax administration, the bank on the basis of tax administration statement, is liable to transfer the payment from the account of payment responsible body to budget

income account of the tax administration without taxpayers consent. If taxpayer's account amount does not cover tax liability to temporarily stop the out-flowing bank account of economic entity and organization, which didn't pay taxes on time, until the payment is made.

- 3.1.14. The term "salary or wages paid to other" means salary, wages, payments and other similar remuneration transferred by citizen, economic entity, organization to other citizen, economic entity, organization in cash or by written order.
- 3.1.15. The term "withhold tax" means
- To withhold in case of cash payment
 - To withhold in case of salary, wages, payments and other similar remuneration transferred to the private account or mediator economic entity, organization.
 - Other cases when income transferred to one's main organization.
- 3.1.16. The term "tax liability" means delinquent or re-imposed taxes, interest and fines.
- 3.1.17. The term "taxable income" means income earned by carrying on basic and other production and service activities.
- 3.1.18. The term "tax assessable income" means taxable income minus all expenses stipulated by adequate tax law.

Article 4. Mongolian national tax system

- 4.1. National tax system of Mongolia consists of taxes, fees and payments (hereinafter referred to as "tax").
- 4.1.1. The term "tax" means money which is transferred into the state and local budget without any repayment by imposing at the concrete rate within the required time span on income, property, goods and services of a citizen, economic entity and organization. The taxes comprise direct and indirect taxes.
- 4.1.2. The term "fees" means money which is transferred into the state and local budget, paid for the services furnished by the state organization to a citizen, economic entity and organization in conformity with the legislation.

- 4.1.3. The term “payment” means money which is transferred into the state and local budget and special fund, paid for the use of state property (land other than used by citizens, entrails of the earth, its minerals, forest and water sources) by a citizen, economic entity and organization.

Article 5. Introduction, suspension and amendments of tax and tax rate

- 5.1. It is authorized for the State Ih Hural to introduce, suspend and amend taxes by law.
- 5.1.1. The State Ih Hural shall decide or increase and decrease tax rate and tax amount. Based on its authorization, the Government and Representative Hural of aimag, capital city, soum and district shall have the right to define the tax rate and amount in accordance with the Legislation.

Article 6. Taxpayer

- 6.1. The following citizen, economic entity and organization with taxable income and property and a person with concrete power and owns property are liable to taxes:
- 6.1.1. A citizen of Mongolia;
- 6.1.2. A foreign citizen, a person without citizenship of Mongolia, and non-resident who gains profit in the territory of Mongolia;
- 6.1.3. A foreign and domestic economic entity, organization and fund in the territory of Mongolia;
- 6.1.4. A permanent establishment of a foreign economic entity and organization, which gains profits in the territory of Mongolia;
- 6.1.5. Non-resident foreign economic entity, organization and permanent establishment of foreign economic entity, organization which makes profits from the resources on the territory of Mongolia.
- 6.1.6. Resident and non-resident taxpayer should be determined by the adequate tax laws.

The taxpayers subject to 6.1.1 and 6.1.2 of this article hereinafter called ”citizen”.

Article 7. Registration of taxpayer

- 7.1. An economic entity and organization liable to be taxpayers shall register with the tax administration.
- 7.2. Principles of registration of a citizen shall be set the adequate tax laws and regulation of procedures on registration shall be approved by order of Director General of the GDNT.

Article 8. Tax base

- 8.1. Income, property, goods and service, concrete right, land, natural and mineral resources are taxable items.

Article 9. Tax credit and exemption

- 9.1. A taxpayer shall enjoy tax credit and exemption in accordance with the laws in following ways:
 - 9.1.1. Tax deduction;
 - 9.1.2. Reduction of tax rates;
 - 9.1.3. Special purpose tax exemption to support a taxpayer for inducement of his/her business, or to develop local economy, or to reduce unemployment rate;
 - 9.1.4. Exemption of income, goods, work and service below the taxable income threshold;
 - 9.1.5. Exemption of a taxpayer from taxes;
 - 9.1.6. Exemption of some part of taxable items;
 - 9.1.7. Other credit stipulated by the legislation.

Article 10. Tax payment procedure

- 10.1. Tax is assessed by tax return or income and tax determination form and is should be paid as a pre-payment due to the month, quartile schedule approved by tax administration in conformity with the State Budget Law at beginning of year, or by

withholding and is paid in cash or written order. Otherwise procedures on imposition and payment of taxes shall be set in conformity with the adequate tax laws.

10.2. The terms of the tax payment is defined by the adequate tax laws. The due date of tax payment and tax return shall be the same. If this term coincides with a day-off or a statutory holiday, the tax payment shall become due on the preceding working day.

10.3. Delinquent or re-imposed taxes, interest and fines shall be paid by the taxpayers on in non-disputed basis.

The person, responsible for making calculation to impose tax, or withhold and pay to the budget, shall not be paid for performing such kind of work and service.

10.4. An economic entity and organization shall pay indirect taxes without waiting the final results of their operation

10.5. The taxable income should be computed at the earlier point of time when invoice is received or payment is made.

10.6. An agent accountant shall bear responsibilities for any calculation of taxes for economic entity and organization.

Article 11. Taxpayers' obligations

11.1. The taxpayer shall have the following obligations:

11.1.1 To conform to the methods, regulation and recommendation issued by the GDNT in order to implement the tax legislation;

11.1.2 To determine his/her tax liabilities correct and pay taxes within the required time, and to make tax pre-payment according to the agreement made with tax administration at the beginning of year;

11.1.3 To dispatch any calculations, statements connected with the tax levy and payment of taxes, to the tax administration within the required time;

11.1.4 To keep primary and book-keeping records in compliance with the regulation hereunder, prepare balance sheets and reports on financial and economic operations;

11.1.5 To fulfill the tax administration's and tax inspector's requirements to eliminate any infringements occurred in the case violation of the tax legislation;

- 11.1.6 To sign the act of investigation of the tax administration if you agree with it, and to submit written official explanation to the tax administration within 10 days if disagree with the act;
- 11.1.7 Economic entity and organization should withhold and remit imposed taxes on salaries, wages and other similar remuneration of their employees and non-employees and transferred income stipulated by the Law within the required time to the budget;
- 11.1.8 Economic entity and organization should impose and remit taxes on income by special rate stipulated by the Law within the required time to the budget;
- 11.1.9 Economic entity and organization should submit withholding tax report made by taxpayer's name, address and register number to the tax administration;
- 11.1.10 Any person, economic entity and organization transferred the taxable items to others, shall submit documents connected with it to the tax administration;
- 11.1.11 Any person, economic entity and organization shall not be given any possibilities to evade from the tax by being used its own name, address, stamp, state registration certificate, private and corresponding accounts by others;
- 11.1.12 Any person, economic entity and organization shall not lease or sell its own special license obtained from authorized organizations to give permits on the basis of own stamp, name, address and state registration certificate, to the individuals and other law bodies;
- 11.1.13 Any person, economic entity and organization shall report the terms of opening and closing of bank accounts to the corresponding tax administration within three business days;
- 11.1.14 Any person, economic entity and organization shall use cashier machine with approved technical specifications;
- 11.1.15 Other obligations stated in the law and legislation;
- 11.2 Taxpayer shall have following obligations when a complaint is submitted to the tax dispute resolution council:
 - 11.2.1 Taxpayer shall submit additional evident documents connected with the questions being reviewed by the tax dispute resolution council;
 - 11.2.2 Taxpayer shall give required explanations to the council chairman, secretary, members and staff reviewing the question;

- 11.2.3 In case of appeal of the council to the court, the taxpayer shall participate in the court sitting after paying stamp tax;

Article 12. Suspension of obligation of tax payment and transference of it to the others

- 12.1. The obligation of tax payment shall be suspended in the following cases:
- 12.1.1. The adequate tax law was canceled. The obligation of tax payment shall not be suspended if this obligation arisen before the adequate tax law was canceled;
- 12.1.2. The adequate taxes were paid;
- 12.1.3. The taxpayer was fully exempted from the adequate taxes;
- 12.1.4. The taxpayer died and considered to be died;
- 12.1.5. The economic entity and organization was liquidated;
- 12.2. The obligation of the tax payment and right connected with it, of a citizen who is considered to be died, shall be transferred to the heir.
- 12.3. The obligation of deficient tax payment and the right connected with it, of a re-organized economic entity and organization, shall transfer to newly organized economic entity and organization as a result of re-organization. If economic entity and organization were separated as an independent unit, the obligation of the tax payment shall be transferred to them in proportion of taxable items.
- 12.4. In the case of liquidation of an economic entity or organization the liquidation commission, or in the case of bankrupt thereof the Plaintiff's commission are legally entitled to collect the unpaid taxes or tax arrears from its assets.

Article 13. Taxpayer's right

- 13.1. A taxpayer shall have the following rights:
- 13.1.1. To enjoy tax deduction and tax exemption according to the tax laws, to choose from any of several deductions and exemptions applied to him;
- 13.1.2. To access to the act made by the tax administration;
- 13.1.3. To make or get explanations in reference with tax levy, payment and results of tax inspection;

- 13.1.4. To get indemnification for losses caused by improper decisions of the tax administration, in conformity with the legislation;
- 13.1.5. To get refund on overpaid taxes or credit them against the further taxes;
- 13.1.6. To raise an objection against unlawful actions and decisions of the tax administration and tax inspectors to a court or authorized government agency. This objection does not absolve the taxpayer from paying taxes. But payment of taxes may be temporarily suspended by an investigating court, by which the objection is being considered.
- 13.2. Taxpayer shall have following rights when a complaint is submitted to the tax dispute resolution council:
 - 13.2.1. The complaining taxpayer shall get acquainted with decision of tax administration and state tax inspector and if the taxpayer considers it as a baseless, taxpayer shall submit its complaint to the corresponding tax dispute resolution council within 60 days after receipt of the decision;
 - 13.2.2. The taxpayer shall personally participate in the tax dispute resolution council meeting and to submit its explanation, justification, request, and to participate its representative, authorized accountant and advocates in the meeting;
 - 13.2.3. Taxpayer shall submit its explanation and references in a written form with respect of the disputed question prior the tax dispute resolution council meeting occurs;
 - 13.2.4. Taxpayer shall get acquainted with resolution and notes of the tax dispute resolution council meeting;
 - 13.2.5. If the taxpayer considers the resolution of the tax dispute resolution council meeting as a baseless it shall submit its complaint to the higher level tax dispute resolution council and court according to level.

Article 14. Interest imposition on taxpayer (new provision)

- 14.1. If the amount and quantity of tax base are reduced unintentionally, unpaid taxes will be recovered and one percent interest will be imposed on annual taxes for each day of delay. Interest payable shall not exceed 50 percent of the total taxes due.
- 14.2. If the payment is delayed, interest is equal to 0.5 percent of unpaid tax amount for each day of delay. Article 180, Clause 6 of Civil Law not covered to this Article.

- 14.3. In case of income generated by running the production and service, not prohibited by the Law, without being registered state registration, interest of 2 percent a day accounted on amount of later imposed tax, shall be imposed.
- 14.4. In case of income generated by the economic entity and organization by being used its name, address, stamp, account, state registration certificate and civil documents by others or the economic entity and organization gave possibilities to others to generate income, interest of 2 percent a day accounted on amount of later imposed tax, shall be imposed.

Article 15. Responsibilities of taxpayer

- 15.1. A taxpayer bears the following responsibilities unless his/her infringement of tax legislation is not suitable for criminal responsibilities:
- 15.1.1. If the taxable income is hidden or willfully reduced, the fine is equal to the reduced or hidden amount of taxes;
- 15.1.2. Taxable income, taxable items other than income are hidden or its quantity or amount is reduced intentionally and this infringement confirmed by the related documents, unpaid taxes will be recovered and the fine is equal to the unpaid taxes;
- 15.1.3. If it is certified by evidence and calculation that economic entity and organization generated income by being used its name, address, stamp, account, state registration certificate and civil documents by others or the economic entity and organization gave possibilities to others to generate income by use of its above mentioned documents, impossible tax shall be recovered and fine equal with recovered tax shall be imposed;
- 15.1.4. To completely confiscate the income earned by carrying on production and service activities, which were prohibited by the legislation and as well as the equipment, machinery, instruments, tools and raw materials used for this reason;
- 15.1.5. To completely confiscate income of a taxpayer, however he/she engaged in business and service which are not prohibited by the legislation, but there is no appropriate permission for conducting such activities;
- 15.1.6. To completely confiscate income gained by means of false or invalid contract, or by the way of unlawful action;

- 15.1.7. Other responsibilities stipulated by law;
- 15.1.8. Imposed fine should be paid irrespective of applying other measures against taxpayer.

Article 16. The statute of limitations relating taxes, interests and fines

- 16.1. The statute of limitations relating taxes, interests and fines shall be of 5 years.
- 16.2. The pursue term shall cover up to 5 years to reveal the tax infringement and up to 5 years to complete the payment after the infringement is revealed and conclusion is made;
- 16.3. The pursue term shall be interrupted when the tax administration sent payment statement and it will newly calculated in the further.

Article 17. Responsibilities of banking and other financial institutions

- 17.1. Banking and other financial institutions have to submit estimates connected with the tax investigation to the tax administration.
- 17.2. Bank should execute tax payment of a taxpayer who is a client of this bank within 12 hours. The bank which has received such payment must remit them to the budget account on the same day. If the bank has failed to fulfill its responsibilities the tax administration shall impose interest of 0.5 percent non-executed tax amount for each day of delay.
- 17.3. In case that the tax payment is made under compulsory execution, the bank on the basis of tax administration statement, is liable to transfer the payment from the account of payment responsible body to budget income account of the tax administration.
- 17.4. The tax administration shall handle the account of fine, tax recovery and tax collected in state central and local budget through the said tax administration.

SECTION 2
Tax system of Mongolia

Article 18. Types of taxes in Mongolia

- 18.1. The national taxes of Mongolia comprise state and local taxes.
- 18.1.1. The State taxes are referred to taxes and rates which are introduced by the State Ih Hural and on its authorization Government and are collected on a nation-wide-basis in the territory of Mongolia and concentrated in State budget.
- 18.1.2. The local taxes are referred to taxes, rates and basis of which are introduced by the Representative Hural of aimags and capital city at the margin set by the State Ih Hural, and which are collected in the adequate local territory and concentrated in Local budget.
- 18.1.3. Types of taxes indicated in Article 18 Clause 1.1 which should b paid the local budget will regulate by Budget Law.

Article 19. State taxes

- 19.1. The National taxes are the following:
 - 19.1.1. Corporate income tax
 - 19.1.2. Individual income tax
 - 19.1.3. Inheritance and Gift tax
 - 19.1.4. Real estate tax
 - 19.1.5. Customs duty
 - 19.1.6. Value added tax
 - 19.1.7. Excise tax
 - 19.1.8. License fee for use of natural resources
 - 19.1.9. Payment for use of natural resources
 - 19.1.10. Land payment
 - 19.1.11. Gasoline and diesel fuel tax
 - 19.1.12. Transport and automobile tax
 - 19.1.13. Payment for use of hunting resources, license fee for hunting and catching of animals

- 19.1.14. State stamp duty
- 19.1.15. Tax of travelers in foreign countries
- 19.1.16. Smoke tax

Article 20. Local taxes

- 20.1. The local taxes are the following taxes:
 - 20.1.1 Gun tax
 - 20.1.2 Capital city tax
 - 20.1.3 Urban pet dog tax
 - 20.1.4 Payment for use of timber from forest
 - 20.1.5 License fee for use of natural resources except minerals
 - 20.1.6 Payment for use of natural plants
 - 20.1.7 Payment for use of other widely spread minerals
 - 20.1.8 Payment for use of mineral springs

Article 21. Definition of tax rates

- 21.1. The State Ih Hural shall define the tax rates indicated in paragraphs 19.1.1 - 19.1.8, 19.1.10 - 19.1.11, 19.1.13 - 19.1.15, 20.1.1, 20.1.3 of Articles 19 and 20 of this law.
- 21.1.1. The government shall define the tax rates indicated in paragraphs 19.1.10, 19.1.13, 20.1.4 of articles 19, 20 of this law at the margin set by the State Ih Hural.
- 21.1.2. Representatives Hural of aimags and a capital city may define the rates of taxes indicated in paragraphs 20.1.5 – 20.1.8 at the margin set by the State Ih Hural as well as to reduce the rates of taxes indicated in paragraphs 20.1.2 – 20.1.6 till the 35 percent at the margin set by the State Ih Hural according to the features of adequate country.

SECTION 3

National tax administration of Mongolia

Article 22. System of national tax administration of Mongolia

- 22.1. The national tax administration of Mongolia comprises the GDNT, its jurisdiction separate tax offices with obligation to provide budget formation, aimag tax offices and State tax inspectors of sums. (the smallest administrative unit of Mongolia). Mobil tax divisions may work between the sums according to the features of adequate country.
- 22.1.1 The national tax administration has its own wear badge. The GDNT will approve its design and set up using rules.
- 22.1.2 A unit of case investigation or investigator for prosecution will work in the GDNT, its jurisdiction tax offices and aimag tax offices.
- 22.1.3 In the GDNT, its jurisdiction tax offices and aimag tax offices the tax dispute resolution committee authorized to settle disputes arising between taxpayers and tax administration shall work.

Article 23. Tax dispute resolution council (new provision)

- 23.1. The Tax dispute resolution council is non-staff unit and shall be guided by the principles to respect for laws, not fall under the others' influence, protect the legitimate interest of administration and tax taxpayers and keep the secret information related with taxpayers safely.
- 23.1.1. The tax dispute resolution council will comprise of chairman and members not less than 5 in aimags and not less than 7 at GDNT and they should be worked in a field of accountancy, taxation, economics, legislation profession not less than 10 years and has a professional grade as a minimum bachelor degree. Taxpayer's representatives may participate in council.
- 23.1.2. Chairmen of department sub-department and tax inspector responsible for the dispute shall not work in the dispute resolution council.

- 23.1.3. A Minister responsible for the taxation shall appoint chairman, secretary and members of the Council at the GDNT and Director General of the GDNT shall appoint chairman, secretary and members of council at aimag tax offices.
- 23.1.4. Complaints connected with resolutions made by aimag tax office and state tax inspector of soum, and complaints connected with resolutions made by the GDNT and its subordinate tax administration state tax inspector shall be received and reviewed in accordance with taxation law, by council at the aimag tax office and council at GDNT, respectively.
- 23.2. The Council shall have following rights:
 - 23.2.1. When settling the dispute it shall require to submit required documents, their copies, materials, calculation, reports and surveys from connected economic entity, organization, foundation and citizens;
 - 23.2.2. To ask complainer, defendant and other connected people to submit explanation and reference and to listen to their request;
 - 23.2.3. To invite specialist, to hire interpreter, expert and auditor in required cases, and to allocate their work fee, transport and official travel costs from tax administration budget. If the guilty is determined, the council shall state in its resolution to collect the allocated expenditure in tax administration development fund from the plaintiff;
 - 23.2.4. To cancel taxpayer's complaint if the tax administration and state tax inspector resolution is considered as valid and to cancel the resolution if it is considered as non-valid and to issue a resolution to cancel tax, interest and fines connected with complainer, imposed by acts and to state in the resolution to back the confiscated products and items and if the confiscated products and items sold and its price became budget income, to reimburse the price, respectively;
 - 23.2.5. Council at the GDNT may directly apply to the court according to the taxpayer complaint, if necessary;
 - 23.2.6. Office term of the council shall be preserved till the approval day of new council.
- 23.3. Responsibility of the council:
 - 23.3.1. To receive and resolve the taxpayer complaints according to subordination;
 - 23.3.2. To explain the council meeting resolution to the complaining taxpayer;

- 23.3.3. To immediately return the documents, materials taken from the economic entity, organization, foundation and citizens on the basis to return, after the dispute is resolved, but copies of required documents shall be attached to the council meeting resolution. To state in the resolution that to apply to the court if the tax payer does not agree with the council resolution.

Article 24. Activities of tax dispute resolution council (new provision)

- 24.1. Council will receive and resolve the taxpayer complaints in 30 days. If it is found impossible to resolve complaints in given days the chairman authorized to extend this period by 60 days one time;
- 24.2. Chairman will appoint the employee who authorized to verify validation of the taxpayer complaints, make conclusion and submit for consideration of council meeting. In case of need the council can set up the work-shop.
- 24.3. Council meeting will held with 75 percent participation of members at least, and all resolutions should be approved by majority of votes. Resolution should be signed by chairman and members of council. Resolution comes into force from issued day. In case of disagreement on resolution opinions of counterpart will indicated in meeting report.
- 24.4. Tax inspector has right to appeal to higher council or court in 14 days if he/she disagreed with resolution of council.
- 24.5. In case of chairman's absence the chief of current meeting will appoint by majority of participating member's votes.
- 24.6. Secretary of council responsible for it's internal work and provide participation and keeping records of meeting.
- 24.7. Taxpayer's applying to council and court does not absolve the taxpayer from paying taxes.

Article 25. Charter of tax administration

25.1. The charter of tax administration shall be approved by the government.

Article 26. Management of tax administration

26.1. The tax administration shall have the unified status and management.

26.2. The GDNT will work under supervision of the Minister of Finance and Economy, the capital city and aimag tax offices under the GDNT, the district tax offices as well as tax inspectors of sum under the capital city and aimag tax offices will work.

26.3. The Director General of the GDNT shall appoint the directors of its jurisdiction tax offices, and tax inspectors are appointed by the respective directors with authorization of the Director General of the GDNT.

Article 27. Principle of activities of the tax administration and its inspectors

27.1. The tax administration and its inspectors shall be guided by the principles to respect for laws, not fall under the others' influence and protect the legitimate interest of taxpayers.

Article 28. Basic responsibilities of tax administration

28.1. The tax administration shall bear the following basic responsibilities:

28.1.1. To control over the implementation of the tax legislation;

28.1.2. To conduct supervising activities on education and methodology of the implementation of the tax legislation;

28.1.3. To collect the national and local budget revenue;

28.2. To work out tax law projects and propose amendments in tax laws.

Article 29. Rights of the tax administration and its inspectors

29.1. The tax administration shall have the following rights:

- 29.1.1. To exempt and deduct a taxpayer from taxes in conformity with tax legislation;
- 29.1.2. To impose taxes on the estimated basis on taxpayers who did not keep the primary and bookkeeping records and there was problem in definition of income and expenditure.
- 29.1.3. To carry out case investigation according to Criminal Law;
- 29.1.4. To temporarily stop the out-flowing bank account of economic entity and organization, which didn't pay taxes on time, until the payment is made;
- 29.1.5. To collect taxes according to the appropriate procedure, if taxpayer did not pay taxes due, interest and fines imposed the tax administration on time;
- 29.1.6. To credit overpaid taxes against the next month, quarter and annual tax liabilities or refund the excess within 30 days from the end of the assessment upon taxpayer's request;
- 29.1.7. To impose penalties indicated in the legislation on a taxpayer who avoided from paying taxes, interest, fine and failed to submit tax return and records in time and as well as failed to take appropriate measures to stop violations, discovered during the tax inspection;
- 29.1.8. To annul or alter the decisions of the low rank tax administration, if the higher rank tax administration finds it baseless;
- 29.1.9. To get free of charge the information required in a tax investigation from a citizen, economic entity and organization;
- 29.1.10. To appeal to a court in case of persons, who made obstacles, protest, followed for his/her activities and caused damages in life and health of a tax inspector while conducting his/her duty;
- 29.1.11. To collect tax arrears;
- 29.1.12. To define estimated basis and impose tax by special rate on taxpayers. Taxpayer has no right to dispute this estimation;
- 29.1.13. Other cases stipulated in the legislation.
- 29.2. The state tax inspector shall have the following powers:
 - 29.2.1. To examine balance sheets, records projects and other financial documents connected with imposition and payment of taxes and to get explanations and surveys referred to above mentioned examinations;

- 29.2.2. To get free of charge notes and copy of documents connected with the tax examination from the partner economic entity, bank and financial bodies of taxpayer;
- 29.2.3. To seize temporarily documents evidencing the tax evasion and to get a copy them;
- 29.2.4. To access to the working premises, facilities and storage (notwithstanding its location) where the taxpayer keeps the taxable items or uses it for gaining income, and as well as to carry out examination, counting, and to make surveillance and if necessary the inspection is done;
- 29.2.5. To let the taxes be paid from the assets of economic entity and organization, if economic entity and organization did not withheld taxes on salaries, wages and other income paid to other persons;
- 29.2.6. To impose the responsibilities defined in paragraph 1 of Article 15 on a taxpayer.
- 29.3. The tax inspector shall have the following powers:
 - 29.3.1. To demand from taxpayer to pay tax, interest and fines imposed by state tax inspector;
 - 29.3.2. To grant inviting notes to taxpayer;
 - 29.3.3. To examine any assets connected with imposition and payment of taxes and to get explanations and surveys referred to above mentioned examinations in order to collect tax, interest and fines imposed by state tax inspector;
 - 29.3.4. To access to the working premises, facilities and storage (notwithstanding its location) where the taxpayer keeps the taxable items or uses it for gaining income, and as well as to carry out examination, counting, and to make surveillance and if necessary the inspection is done;
- 29.4. Basic responsibilities of tax inspector, state tax inspector and senior tax inspector:
 - 29.4.1. To keep of taxpayer's secrets relating to their assets, production and commercial activities;
 - 29.4.2. To inform the relevant bodies of the unlawful activities committed by the economic entity and organization, discovered while conducting his/her duty;
 - 29.4.3. To advertise tax legislation and provide taxpayers with appropriate services;
 - 29.4.4. To implement the order and resolution of tax authorities;
 - 29.4.5. To keep the state tax inspector ethics norm and respect tax administration honor;
 - 29.4.6. To be guided by the principles to respect for laws, not fall under the others' influence and protect the legitimate interest of taxpayers in his/her work;

- 29.4.7. To fulfill the work stipulated by his/her characteristic of working day.
- 29.5. Tax inspector, state tax inspector and senior tax inspector prohibited:
 - 29.5.1. To workout taxpayer's financial and tax report;
 - 29.5.2. To travel and have holiday on taxpayer's expenses;
 - 29.5.3. To mediate between economic entities and organizations;
 - 29.5.4. To get free of charge services and credits from taxpayers;
 - 29.5.5. To conduct other work excepting scientific, teaching and non-staff elective work at non-governmental public organizations;
 - 29.5.6. To persuade in connection with tax exemption and tax credit point on behalf of taxpayer;
 - 29.5.7. To use tax revenue for own purpose.

Article 30. Tax administration and its rights

- 30.1. The Government shall appoint the Director General of the GDNT directly, and the Deputy Director with confirmation of the Director General of the GDNT.
- 30.2. The Director General of the GDNT shall be tax general inspector and have the following rights:
 - 30.2.1. To provide with general management, organization and control in purpose of implementation of tax administration rights;
 - 30.2.2. To grant state tax inspector's right, professional rank, title as well as to cancel its;
 - 30.2.3. Due to power granted by tax legislation to issue order which should be conducted in whole territory of Mongolia;
 - 30.2.4. To participate in tax policy elaborating work;
 - 30.2.5. To work out International Tax Treaty Project in order to prevent tax evasion and double taxation as well as provide fulfillment of obligation stipulated by Treaty;
 - 30.2.6. To annul or alter an act and decisions of the state tax inspector in conformity with legislation;
 - 30.2.7. To appoint and relieve from administrative staff of tax offices and staff of the GDNT;
 - 30.2.8. To make evaluation on tax inspector, state tax inspector and senior tax inspector's work;

- 30.2.9. To dispose national tax administration's budget and assets;
- 30.2.10. To cancel tax liability and/or by court decision in case no heir of the taxpayer who died or considered to be died, the adequate tax law was canceled and the pursue term finished;
- 30.2.11. To notice related Ministry about wrong tax paragraphs;
- 30.2.12. To grant tax inspector and case investigator's right;
- 30.2.13. To approve tax inspector's professional rank granting regulation;
- 30.2.14. To transfer rights indicated in Clauses 2.1-2.13 of this Article to the heads of jurisdictional tax offices.
- 30.3. In case of absence of the Director General of the GDNT his/her rights will be transferred to the Deputy Director.

Article 31. Budget of tax administration

- 31.1. The expenses for activities of the tax administration are covered from the budget and it's economical provisions should be granted by the Government. The tax administration may have its own budget.
- 31.2. The state and local administration shall provide the tax offices located on it's territory by land, communication, energy, heat supply services as well as provisions for normal activity.

Article 32. Tax administration development fund

- 32.1. The tax administration shall have tax administration development fund in order to resolve tax employee's social problems, to improve training and material base of tax administration.
- 32.2. Tax administration development fund asset will arise from 20 percent of total income earned by re-imposed tax, interest and fines imposed during the tax investigation activity.
- 32.3. Source of tax administration development fund will be approved by authorized Ministry.

Article 33. Disposition of fund's assets

- 33.1. Fund's assets should be disposed in following purposes:
- 33.1.1. To finance an additional expenses for constructing and purchasing office buildings, techniques, equipment and etc;
 - 33.1.2. To finance the participation of staff in domestic and foreign countries training courses, seminars, conferences in order to improve their knowledge level;
 - 33.1.3. To build and purchase apartment house for employees in purpose to provide them stable and comfortable conditions for work and life;
 - 33.1.4. To award and incentive most reliable taxpayers and tax inspectors;
 - 33.1.5. To issue and purchase books, handbooks ... for tax inspectors and tax collectors.

Article 34. Professional rank, rank bonus and rewards of state tax inspector and procedure to take examinations

- 34.1 In the tax administration, tax inspector, tax state inspector, state senior inspector and tax general inspector shall work. State tax inspector and general tax inspector shall private badge.
- 34.2 State tax inspector, state senior inspector, general tax inspector shall get salary and additional bonus for implementing full authority of their posts in accordance with State Service Law.
- 34.3 State tax inspector, general tax inspector shall be allocated work result rewards. Sum of monthly allocable reward for work result shall not exceed basic salary for their post.
- 34.4 The rules for setting up rewards for work result shall be approved by the GDNT.
- 34.5 Rewards to be allocated to the tax inspectors shall be resolved in accordance with State Service Law.
- 34.6 Examination to assign state tax inspector shall be held once in four years and examination to award rank shall be held once in two years. This Clause shall not cover state general and senior inspectors.

Article 35. Responsibilities of tax inspector, state tax inspector and state senior inspectors

- 35.1. Disciplinary, or administrative, or property or criminal responsibilities shall be imposed on tax inspector, state tax inspector, state senior inspectors who have not implement their official responsibilities in appropriate way such as to hide unlawful actions of taxpayer, to use the tax income for private purposes, to disclosure information secrecy and abuse of power.
- 35.2 Disciplinary responsibilities to be imposed on state tax inspector, state senior inspector:
- 35.3 The following disciplinary responsibilities shall be imposed on state tax inspector, state senior inspector who lost their responsibilities like violating state administration officials' oath, or implementing their official responsibilities insufficiently, or abusing their power, violating clauses of legally prohibited, with respect of their violation characters.
- 35.3.1 To warn;
- 35.3.2 To reduce or exclude state officials' rank;
- 35.3.3 To reduce monthly salary by 20 percent for period up to 6 months;
- 35.3.4 To reduce state inspector rank or to exclude title;
- 35.3.5 To dismiss from tax administration;
- 35.3.6 If the violation has criminal character the guilty official shall be dismissed from tax administration and to be transferred under supervision of crime investigation organization.

Article 36. Ensuring rights of tax administration personnel

- 36.1 The state tax inspector, state senior inspector, general tax inspectors shall use a uniform without charge. The Director General of the GDNT shall approve design of uniforms, model of badges, use order and time of its use.
- 36.2 In case that the tax inspectors lost working capability temporarily, became disabled and lost their life impacted by others, the following grants and wage differences will be given to him/her and his/her family:

- 36.2.1. In case of losing of working capability temporarily, allowance for absence by doctor's permission and wage difference shall be allocated;
- 36.2.2. In case of becoming disabled, pension for disabled and wage differences shall be allocated;
- 36.2.3. In case of making prosthesis, its cost shall be allocated.
- 36.2.4. In case of hospitalized for treatment, cost exceeded the health insurance shall be allocated;
- 36.2.5. In case of full loss of working capability, one time gratis aid equal to one year salary shall be allocated;
- 36.2.6. In case of getting retired, one time gratis aid equal to average salary of 6 months shall be allocated;
- 36.2.7. In case of loss of life, one time gratis aid equal to 3 years salary shall be given to his/her family.
- 36.3. Gratis aid and wage differences indicated in the paragraph 2.7 of this article are allocated from the budget. These payments shall be covered by guilty person.

Article 37. Title of tax administration governing officials

- 37.1. Governing officials of the GDNT shall have following title.
 - 37.1.1. Authentic Consultant of National Taxation Administration;
 - 37.1.2. Honorable Consultant of National Taxation Administration;
- 37.2. Subordinated administration and local department chair-people shall be 1st, 2nd, 3rd degree consultants.
- 37.3. Title of tax policy authentic and honorable consultants and 1st, 2nd, 3rd consultants of tax administration shall be awarded by order of Minister and order of Chairman of General Department of National Taxation, respectively.
- 37.4. Title awarding rule shall be approved by the Minister.

SECTION 4
Agent Tax Accountant

Article 38. To employ agent tax accountant

- 38.1 An agent tax accountant shall work in the economic entity, organization, non-governmental organization, representative office of organization or foreign entity.
- 38.1.1 An agent tax accountant shall get registered in the tax administration, taken examination and obtained a certification.
- 38.1.2 An agent tax accountant shall be required to be a reliable taxpayer.
- 38.1.3 An agent tax accountant shall compute taxes correctly in conformity with the current tax laws, make the tax payment within the statutory due date in order not to pay additional taxes or fines due to violation of law and prevent taxpayers from suffering financial loss.
- 38.1.4 In cooperation with tax administration in executing tax laws, an agent tax accountant shall prevent taxpayers from violating laws, assist taxpayers to make tax payment within statutory due date, prevent violation of tax laws and consult or provide taxpayers with methodology of tax assessment.
- 38.1.5 An agent tax accountant may verify or approve tax calculations of several economic entities or organizations.

Article 39. Requirement for an agent tax accountant

- 39.1 A personnel to get permission as an agent tax accountant shall be those who have engaged in bookkeeping or accounting for not less than 5 years, have knowledge of the production, service and accounting in line required in the workplace, have working experience in those areas, have knowledge about tax laws required by the tax administration and have an will to work in the said areas stably in the future.
- 39.2 A personnel to work as an agent tax accountant shall have an ability to give advice on accounting and cost bookkeeping, financial audit and management, and acquire the

methodology to prepare tax report, to calculate differences between financial and tax report and to make tax assessment.

- 39.3 An agent tax accountant shall have a bachelor degree or higher. But certified accountant shall not be covered in this educational level of criteria.

Article 40. Examination of an agent tax accountant

- 40.1 Examination of an agent tax accountant shall be held to determine whether the accountants have required knowledge to work as an agent tax accountant and abilities to implement it.
- 40.1.1 Examination committee shall give a permission to take an examination after verifying status of professional employment, past financial registration mistakes.
- 40.1.2 Personnel to get a permission to work as an agent tax accountant shall take an examination on tax laws and accounting practice examination. List of laws to be present at the examination shall be issued by the GDNT.
- 40.1.3 Examination questions and contents of test to determine practical skills shall be issued by the GDNT.

Article 41. Examination committee of an agent tax accountant

- 41.1 Examination committee shall be set under the jurisdiction of the GDNT with purpose to determine whether the examinees meet the requirement as an agent tax accountant.
- 41.1.1 Members of the committee shall be approved by the order of Director General of the GDNT.
- 41.1.2 The committee shall give an examination to determine whether the examinees meet the requirement to work as an agent tax accountant and propose to award those who passed the examination to give a certification to the Director General of the GDNT.
- 41.2 To award or cancel a certification to work as an agent tax accountant.
- 41.2.1 Following documents shall be submitted to the GDNT or aimag tax offices to get the certification of an agent tax accountant:
- 41.2.2 Application for working as an agent tax accountant;

- 41.2.3 Copy of diploma;
- 41.2.4 Copy of qualified accountant's certificate if he/she is a qualified as an certified accountant;
- 41.2.5 Personnel brief history form;
- 41.2.6 Reference of corresponding tax administration and financial institution allowing him/her take an examination.
- 41.3 Certification of an agent tax accountant shall be given to those who record over 75 points in each examination within 14 days after completion of examination by the order of Director General of the GDNT.
 - 41.3.1 The certification shall be updated each year.
 - 41.3.2 The certification shall be canceled if those who awarded have not run any activities within a quarter of year after granted it.
 - 41.3.3 The certification shall be canceled if violations revealed during tax inspection are related with tax assessment and reports verified by an agent tax accountant.
 - 41.3.4 In case that an agent tax accountant violates tax law, or his/her certification term is expired, or he/she fails to pass the examination to prolong the certification, his/her certification shall be canceled by the order of Director General of the GDNT and announced to the public.

Article 42. Cooperation given to an agent tax accountant from tax administration

- 42.1 Tax administration shall develop training program to give knowledge about tax, carry out training according to the schedule approved at the beginning of the year and take measures to involve and qualify confidential accountants of taxation in the training without charge.
 - 42.1.1 Tax administration shall certify an agent tax accountant who creates environment for the taxpayer to work without tax violation by correctly preparing the tax reports and working initially to execute tax laws and instruct taxpayers to award up to 30 percent of quarterly salary to the said agent tax accountant.
- 42.2 The taxpayers shall provide the followings to an agent tax accountant:

- 42.2.1 To provide with primary documents on time to prove expenditures incurred in determining taxable income and object of taxation;
- 42.2.2 To provide with tax payment information by tax items;
- 42.2.3 To provide with the information about software relating to taxation and tax payment at all times;
- 42.2.4 To provide with documents relating to accounting and bookkeeping, tax return form, required instruments, legislation, regulation, instruction and other documents;
- 42.2.5 To have a possibility to implement the requirement asked by tax administration on time;
- 42.2.6 To provide with other conditions agreed by contract.
- 42.3 Tax administration shall provide the agent tax accountant with following conditions:
 - 42.3.1 To obtain methodological assistance on taxation with or without charge;
 - 42.3.2 To obtain rules and regulations, guide books or manuals relating taxes in primarily with or without charge;
 - 42.3.3 To provide necessary information about tax payment made by the taxpayer;
 - 42.3.4 To give notice about changes made in the tax report in primary step.

Article 43. Activities of an agent tax accountant

- 43.1 An agent tax accountant shall implement following activities on behalf of taxpayer:
 - 43.1.1 To compute taxes by tax item and inform the management to make tax payment within the statutory due date;
 - 43.1.2 To verify the correctness of tax report and get it submitted to the jurisdictional tax administration within the statutory due date;
 - 43.1.3 In case that imposed taxes are not paid within due date, to compute delinquent taxes and make taxpayer to pay them;
 - 43.1.4 To confirm calculation of withholding individual income taxes and consult taxpayer to make calculation on the taxation list;
 - 43.1.5 To verify taxpayer's tax report and get it submitted to the jurisdictional tax administration.

- 43.2 An agent tax accountant shall implement the following activities against the tax administration:
- 43.2.1 To submit the tax report verified and approved by himself/herself to the jurisdictional tax administration within the statutory due date;
 - 43.2.2 To verify the statement in conformity with the regulation of tax documentation and get the taxpayer to adhere to the regulation;
 - 43.2.3 To prepare the monthly estimated schedule of tax income based on the advance tax report made by the taxpayer, submit it to the jurisdictional tax administration and make the taxpayer to execute it;
 - 43.2.4 To compute excess and deficiency of taxes, declare the intention to return or offset the taxes and settle them.

Article 44. Obligations of an agent tax accountant

- 44.1 An agent tax accountant shall not use or disclose secret information without any reason, gained during the implementation of his/her activities.
- 44.1.1 An agent tax accountant shall be liable not to injure the reputation.
 - 44.1.2 An agent tax accountant shall be liable not to give advice or consult to evade from taxation or tax payments illegally for himself/herself, or retain tax refunds illegally.

Article 45. Conditions not be liable for lawless act of an agent tax accountant

- 45.1 Tax administration shall not be legally responsible for any violation of law by an agent tax accountant.

Article. 46 Supervision of activities of an agent tax accountant

- 46.1 Jurisdictional tax administration or its management which employs or assigns an agent tax accountant shall supervise his/her activities in conjunction.

- 46.1.1 The each party shall make assessment on activities of an agent tax accountant within 20th of first month of next quarter and exchange information about whether to employ him/her in the further and to award with incentives.
- 46.1.2 Tax administration shall make a control on activities of an agent tax accountant while checking his/her verified tax report and taxation.
- 46.1.3 The GDNT in aimag and jurisdictional tax administration shall make a control on whether personnel obtained a certification to work as an agent tax accountant is making his/her activities or not.

SECTION 5

Others

Article 47. Duty of central and local governments and its officials

- 47.1. The central and the local governments and its officials shall have duties to assist in the activities of the tax examination and investigation to provide necessary information and cooperation in conformity with the legislation.
- 47.2. The central and the local governments and its officials shall submit any information, document and other materials necessary for taxation, tax payment, examination, investigation and inspection without any charge to tax inspectors in charge and take measures jointly, based on notice of determination signed by head of the said administration in conformity with the regulation of exchange of information agreed by both parties.

Article 48. Entry into force

- 48.1. This law comes into force from April 1 of 1997

Appendix 3

**Law on Supervision of Tax Assessment, Payment
and Tax Collection (Proposed)**

**SECTION 1
General Provisions**

Article 1. Purpose of law

- 1.1. The purpose of this law is to regulate the relations arising from supervision of tax assessment, tax payment and tax collection.

Article 2. Law on supervision of tax assessment, payment and tax collection

- 2.1. Legislation on supervision of tax assessment, payment and tax collection comprises the Constitution of Mongolia, the General Tax Law, other tax laws, this law and other legal acts enacted in conformity with the above laws.

Article 3. National tax administration's and state tax inspectors principles of respect of law and being independent

- 3.1. In enforcement of their power the national tax administration (hereinafter referred "tax administration") and state tax inspectors shall be guided by the rules and other legal acts and work avoiding falling under other's influence.
- 3.2. It shall be unauthorized for any citizen, economic entity, organization and an official to hamper and exert pressure on the tax administration and state tax inspectors in enforcement of their power.
- 3.3. It shall be unauthorized for any citizen, official and legal entity other than those empowered by law to make decisions with regard to the power of the tax administration and state tax inspectors.

- 3.4. It shall be unauthorized for any person, unless otherwise provided by law, to bear responsibility over others for the issues related to tax assessment, deductions and exemptions.

Article 4. Protection of right and legitimate interest of taxpayer

- 4.1. The tax administration and tax inspectors shall be guided by principles to respect taxpayer's right and legitimate interest and trust them.
- 4.2. It shall be unauthorized for the tax administration and tax inspectors to intervene the taxpayer's activities other than issues regarding to determining tax liabilities, monitoring tax payment and collection in accordance with law.
- 4.3. The tax administration and tax inspectors shall have the duty to keep the taxpayer's secret, obtained during his official duty and may disclose the information only to the following officials of State organization at the decision of the Director of the tax administration:
- 4.3.1. Tax inspectors and officials on their official duties in accordance with tax laws;
- 4.3.2. Law enforcement organization and procurators in charge of investigations and judgment to tax violations in connection with issues pertaining to the involved cases.
- 4.3.3. Foreign tax administration officials in consistence with the obligations of Mongolia under international treaties and agreements.
- 4.4. In situation other than indicated in part 3 of this article the information and documents of the taxpayer may be disclosed only under the written permission of the taxpayer.
- 4.5. The tax administration shall be unauthorized to make public the taxpayer's activities in cases other than detected violation of tax laws or permission of a taxpayer to advertise their tax related activities is given.

SECTION 2

Relationship of Tax Administration with Taxpayers

Article 5. Registration of taxpayer

- 5.1. A citizen, economic entity and organization with taxable income and a tax withholder, who withholds tax from income distributed to others, shall register with the tax administration 10 working days prior to engaging in business activities.
- 5.2. A citizen, economic entity and organization with taxable items other than income shall, unless otherwise provided by law, register with the tax administration within one month after owning such items.
- 5.3. The tax administration shall register citizens, enterprises, institutions and withholding taxpayers in a registry kept for each tax category. For every single tax obligor, a single register number shall be issued and taxpayer registration file will be opened. The file will maintain for each tax obligor documents that contain the following:
- 1) Taxpayer's register number / name of representative, home address, telephone number
 - 2) Taxpayer's address, telephone number / Number of employees/ Resume of the representative, photograph, passport number
 - 3) Date of establishment / Description of the business and purpose
 - 4) Assessed value of owned real estate, /Form of ownership real estate/ Copies of fixed assets and current assets from certified balance sheet
 - 5) Investor's name /Name and number of branches and offices, locations and addresses, telephone numbers/
 - 6) Financial management / Status of preparation of accounting, bookkeeping and financial reporting forms / tax accountant responsible for the preparation of the previously mentioned documents, tax accountant's address and telephone number
 - 7) Name, address and telephone number of the tax accountant hired under contract
 - 8) Amount of capital, increase or decrease of the capital / Name, address and telephone number of major counter-parties

- 5.4. Each time there is any change in a item contained in the registry and the taxpayer registration file, unless provided for by law or regulation, the taxpayer must notify a tax administration of such a change and record it in the registry and the taxpayer registration file. This shall be done within 14 days from such change
- 5.5. All taxpayers and withholding taxpayers must, without exception, record the special registration number by tax category on all returns, customs returns, receipts and other necessary documents as required by the laws and regulations relating to taxation. All taxpayers are obligated to notify his/her registration number to his/her transaction counterpart. Further, provisions to regulate the assignment of registration number to the withholding taxpayer shall be established by the GDNT.
- 5.6. If there is any change in the status of the real estate including disposal, acquisition, transfer, donation or other form, the taxpayer must notify the jurisdictional tax administration of such change within 20 days of such an occurrence.
- 5.7. Transfer of jurisdictional tax administration relating to all tax obligors shall take place after the said budgetary year, if there is no calculation of tax obligations. If a tax obligor has a tax liability, jurisdiction will not be transferred. Tax obligors to be transferred shall be recorded on the taxpayer registration file and the assessment list of the tax obligor, then a formal settlement shall be performed.

Article 6. Taxpayer service

- 6.1. The tax administration and tax inspectors shall provide the taxpayers with the following services in order to assist them to fulfill their tax duties:
 - 6.1.1. Guidance in interpretation of the tax laws;
 - 6.1.2. Provision of instructions, methods, handbooks and forms related to uniform enforcement of the tax laws, determination of tax liabilities and preparation of financial statements;
 - 6.1.3. Access to group or individual tax consulting and phone inquires concerning fulfillment of his or her tax duty.

Article 7. Decisions of tax administration and state tax inspectors; documentation on relation with taxpayers

- 7.1. In enforcement of their power concerning supervision of tax assessment, tax payment and tax collection the tax administration and tax inspectors shall issue a notification, act, requirement, notification list, payment form, a conclusion, a contract and a note. The taxpayer shall have the duty to fulfill the requirements of the notification, act, requirement, notification list, payment form, a conclusion, a contract and a note issued by the tax service and tax inspectors.
- 7.2. The tax administration and state tax inspectors shall issue a notification on enforcement of the power indicated in subparagraphs 1-4 of the paragraph 2 in article 24 of the General Tax Law and acquiring data and information from taxpayer or any person by means of summons. The notification shall contain issue date, name of the tax administration and tax inspector, implementation deadline and the date of service.
- 7.3. The tax administration and tax inspectors shall issue an act in order to assess tax liability in accordance with tax laws, calculate interest and penalties in accordance with the paragraph 1 in article 13 of the General Tax Law. The act shall contain the issue date, name of the tax administration and tax inspectors, notes on violations, the legal action taken and the date of service.
- 7.4. The tax administration and tax inspectors shall issue a requirement for eradicating reasons which violate the tax laws and the underlying factors. The requirement shall contain the name of the tax administration and tax inspectors, notes on violations, deadline of correction of reason and circumstances and the date of service.
- 7.5. The tax administration and state tax inspectors shall issue a notification list on collection of overdue taxes and tax liabilities based on taxation by estimates. If the notification is sent to the taxpayer, this will be issued in accordance with the paragraph 1 in article 18 of this law, and if to the taxpayer's corresponding banks it will be issued in accordance with paragraph 2 in article 23 of this law.
- 7.6. If the payment is covered from the taxpayer's salary, wages and other income the payment form will be sent to the economic entity and organization, which gives the taxpayer income. Payment form shall contain the full name, address of the receiving

- party, the issue date, the full name of the tax administration and tax inspectors, address and amount of taxes of the taxpayer, the date of service and the reply date.
- 7.7. The tax administration and state tax inspectors shall issue a conclusion on the criminal action of the taxpayer who avoids of tax or violates the tax laws and other related rules and conceals amounts of taxable income. The conclusion shall contain the dates, notes on violation led to the criminal action, facts proving the violation, the name of the tax administration and tax inspector, and the interpretation or conclusion made by the related tax evader with the introducing dates.
- 7.8. The tax administration and tax inspectors shall make a contract with the taxpayer in order to take his assets or property as collateral in accordance with the article 181 of Civil Law. The contract shall include the price, shape, colors, names, responsibilities or usage, the collateral dates or terms of the collateral assets, and will come into force after signing by the two sides.
- 7.9. The State tax inspectors shall have the right to seal and take as collateral or seize the taxpayer's properties, money, records, residence, housing and storage facilities or warehouse and carry out inspection on his documents and in the garage, make inventory and register them in a notification. The notification shall contain the full name of the tax administration and tax inspector; the taxpayer's address, type of business activities undertaken, the content of the interview, questions & answers and the issue dates and it shall be signed by the people who were present during the registration of the notification.
- 7.10. A notification, act, requirement, notification list and payment form of the tax administration and tax inspectors shall be considered served if it has been given to the taxpayer in person or sent to the residential or business addresses by post. The residential and business address of the taxpayer shall be the latest address known to the legal person or the registration body.

Article 8. Maintenance, record-keeping and safekeeping of tax documents

- 8.1. The taxpayer shall maintain the necessary documents to determine taxable items and tax amount. An economic entity and organization shall keep accounting and bookkeeping records, a citizen shall keep an ordinary record.

- 8.2. If the documents are issued in foreign languages the taxpayer shall be responsible for translating them into the Mongolian. The translation fee shall be covered by the taxpayer.
- 8.3. The taxpayer and a person responsible for maintaining the tax documents and keeping records shall keep them in the territory of Mongolia until the statute of limitations relating to taxes and fines ends.

Article 9. Filing, performing and ratifying submission of tax return and assessment list

- 9.1. The taxpayer shall file the tax return and assessment list (hereinafter referred to as "tax return") in appropriate form within the required time and have it ratified by the certified public tax accountant and submit to the corresponding tax office.
- 9.2. The taxpayer, who is entitled to the exemption and deduction, shall not be free from the responsibilities for filing tax return. The tax return shall be the principal document for any tax exemption and deduction in case the certified public tax accountant gives his official signature.
- 9.3. The certified public tax accountant shall be the authorized official who successfully passed the required exam of the certified public tax accountant and has the permission of the Chief of General tax administration to implement the activities of the duty. The certified public tax accountant may perform, ratify and confirm the tax return and filings of several economic entities and organizations.
- 9.4. An authorized representative of an economic entity and organization, the taxpayer or his / her legal representative shall sign the tax return.
- 9.5. The person, who has completed or participated in filing tax return of a taxpayer, shall sign the tax return. If several officials participated in filling of the tax return in accordance with their official duties, then the chief or senior accountants and the certified tax accountant shall also sign the tax return.
- 9.6. The certified accountant shall register with the tax administration and take the required exam. A certified tax accountant may perform tax filings of several economic entities and organizations.

- 9.7. Any person, who transferred the taxable items to others, shall be responsible for providing the receiving party in each time of transference and the tax administration on demand with an appropriate document.

Article 10. Collection and examination of information, facts and documents by the tax administration and the state tax inspector.

- 10.1. In order to perform activities in accordance with paragraphs 1, 2, 3 of the part 2 in Article 24 of General Taxation Law related to tax collection, the tax inspector shall be guided by following rules:
- 10.1.1. The tax inspector shall display the identification card and explain the purpose of activities.
- 10.1.2. In seizing or copying any information and documents the tax inspector shall make notes in the presence of the certified public tax accountant and witness and let them sign on them.
- 10.1.3. To photo and record the evidentiary documents.
- 10.1.4. Let the relevant person make written explanation and inquiry or take notes and sign on them.
- 10.1.5. To demand from the taxpayer and an involved person the documents relevant to taxpayer's tax liabilities, monitoring the tax collection and the collection of tax.
- 10.2. The tax inspector shall pay the market or agreed upon price or the fee if he / she has used equipment belonging to others in copying necessary documents.

Article 11. Procedures on accessing to residence and storage facilities

- 11.1. The tax inspector may access to any production and services facilities and offices, which are not restricted by law, without any prior notification, if there is evidence that the taxpayer is engaged in commercial activities in his/her residence or keeps the taxable items indicated in the paragraph 4 of the part 2 in article 24 of the General Tax Law or has information documents and other relevant materials related to tax assessment.

- 11.2. The provisions of this article shall not apply toward offices and residences of an official with diplomatic rank of a foreign countries diplomatic and consular offices and international organizations.

Article 12. Inspection procedures

- 12.1. For the purpose of determining the taxpayer's tax liabilities, and collecting taxes, the tax administration and tax inspector shall be guided by the following procedures on carrying out inspection in accordance with the paragraph 4 of the part 2 in article 24 of the General Tax Law:
- 12.1.1. A certified public tax accountant or a witness shall be present during the inspection:
- 12.1.2. The owner of the residence, housing, storage and transportation facility, or his legal representative or in their absence the local government representative shall be present during the inspection. If necessary, an impartial specialist or a certified public tax accountant may be invited to participate in carrying out the inspection.
- 12.1.3. An inspection document shall be issued and signed by all persons, who have participated or been present during the inspection. If any of the participants or witnesses refuse to sign the inspection document, then he/she shall be given opportunity to explain the reason. The explanation shall be written in the document.
- 12.2. An inspection shall be carried out regardless of the ownership of the items.

Article 13. Counting procedures

- 13.1. In enforcement of their power the tax administration and tax inspector shall be guided by the following procedures on carrying out counting for the purpose of determining the taxpayer's tax liabilities, in the case of necessity, in accordance with the paragraph 4 of the part 2 in article 24 of the General Tax Law:
- 13.1.1. The involved taxpayer, or his/her legal representative shall perform inventory and counting of goods, assets, cash and securities in the presence of a certified public tax accountant, or the local government representative shall be present there. An official counting document and notes shall be issued.

- 13.1.2. The official counting document and notes shall be signed by the tax inspector in charge of the counting, the involved taxpayer or his/her legal representative. If the taxpayer or his/her legal representative refuses to sign the counting documents, he/she will be given an opportunity to explain his/her reason and the explanation shall be attached in the document.

Article 14. Procedures on surveillance

- 14.1. In enforcement of their power the tax administration and tax inspector shall be guided by the following procedures on performing surveillance in accordance with the paragraph 4 of the part 2 in article 24 of the General Tax Law:
- 14.1.1. The tax inspector may undertake surveillance in order to determine the taxpayer's tax liabilities, and the volume and costs of production and services.
- 14.1.2. The surveillance may be carried out with or without any prior notification. If prior notice has been given, the involved taxpayer may be present. If there has been no prior notice a certified public tax accountant or a witness may be present.
- 14.1.3. Various measuring devices may be used and related specialists may be invited to participate in carrying out surveillance.
- 14.1.4. A document on surveillance shall be issued and all the participants shall sign the document. If any of the participants refuse to sign the document, the explanations shall be written in the document.

SECTION 3

Determination of Tax Amount, Record-keeping of Tax Liabilities and Tax Payment

Article 15. Determination of Tax Amount and Inspection

- 15.1. The taxpayer shall determine his/her tax liabilities in the basis of appropriate documents and show them on the tax return. The tax administration and tax inspector may audit the taxpayer's tax return if it deems to be determined incorrect.
- 15.2. If the taxpayer has not filed his/her tax return within the required time set out by law or failed to determine his/her tax liabilities correctly on the tax return, the tax administration and tax inspector shall determine the taxpayer's tax liabilities on the basis of inspection and estimates.
- 15.3. The legal power of the tax administration and tax inspector to determine and audit the taxpayer's tax liabilities shall be valid within the statute of limitations relating taxes and fines.

Article 16. Record-keeping of tax liabilities

- 16.1 The tax administration shall keep the tax liability records for each taxpayer in accordance with the law, regulations or rules, and instructions adopted by General Department of National Taxation (hereinafter "GDNT").

Article 17. Determination of tax liabilities based on estimates

- 17.1. The taxpayer's tax liabilities on the basis of estimates shall be determined and approved according to the tax administration director's resolution in the case that it has been proved that the involved taxpayer had or has been carrying out production and service activities but has not kept the records or kept incomplete records, or failed to file his/her tax return.

- 17.1.1. The determination of tax liabilities based on a real price method
- 17.1.2. The determination of tax liabilities based on estimates.
- 17.2. If the cost of involved taxpayers' production and service activities in the field of trade, finance and operation is different from the cost of uninvolved taxpayers', the real price method which is the one determining the comparison and estimating the cost will be used.
- 17.3. The GDNT shall determine the determination of tax liabilities using a special method.
- 17.4. If the cost of a taxpayer's production and service activities, which have or had been carried out jointly with the persons in Mongolia or in a foreign country, such as realization (sales), purchase, appointment of the staffs, giving a technical assistance and operating joint manufacturing etc; is less or more than the real price (hereinafter "Price") a taxpayer shall use the real price method of determining of tax liabilities in order to determine his tax liabilities.
- 17.5. The determination of tax liabilities based on estimates means determining tax liabilities based on the volume, revenue, and cost of a taxpayer's production and service with similar capacity and operating conditions as the involved taxpayers in the relevant locality and if such similar taxpayer doesn't exist in the locality, then based on similar estimates of taxpayers operating in the surrounding localities or based on other objective estimates.
- 17.6. On the basis of the real calculation of income and expenditure, scale of the industry and service activities carried out by a taxpayer, taxation by estimation will be determined as the one's who has similar capacity of service and activities carried out in the local area; in that case the taxpayer shall submit the document and notes of his own.
- 17.7. The tax inspector who are responsible for the tax liabilities will jointly prepare a report with a tax examiner and tax investigator and determine the amount of additional taxes. The report regarding the presumptive taxation will be confirmed, approved and signed by the head of the tax administration.
- 17.8. A taxpayer who has not kept the records or kept incomplete records, or failed to file his / her tax return to the tax administration shall have no right to deny and refuse to pay the amount of additional taxes determined by the tax administration.

Article 18. Sending notification list

- 18.1. The tax administration shall send to the taxpayer a notification list on overdue taxes and tax liabilities determined in accordance with procedures set out in paragraphs 1, 2 in article 15 of this law with the following content:
- 18.1.1. Taxpayer's full name;
 - 18.1.2. Taxpayer's registration number;
 - 18.1.3. Issue date of the notification;
 - 18.1.4. Taxable items;
 - 18.1.5. Taxes due for payment;
 - 18.1.6. Requirement to pay taxes within 10 working days after the service of the notification;
 - 18.1.7. Place and type of tax payment;
 - 18.1.8. The basis of determination of tax liabilities;
 - 18.1.9. Other requirements of the tax administration.
- 18.2. If the collection of tax is in jeopardy, the tax administration director may decide that the tax must be paid in a shorter deadline than the indicated deadline in the paragraph 6 the part 1 in this article.

Article 19. Sequences for payment of overdue taxes

- 19.1. Taxes, interest, and fines that have not been paid within the required time set out by law, shall be paid in the following sequence:
- 19.1.1. Interest;
 - 19.1.2. Fines;
 - 19.1.3. The principle tax liability.
- 19.2. The payment of overdue taxes shall be paid in the sequences of their dates. New tax payments shall be sorted by their dates, months and years, and registered the remained tax amount and the tax that has been paid already.
- 19.3. The tax administration shall set the payment sequence in the following cases:
- 19.3.1. If the tax payment is not specified as to the type and period of the tax;
 - 19.3.2. If the tax payment is carried out in the form of seizing property;

- 19.4. The payment of overdue taxes registered in the tax administration shall be paid by the following cases:
- 19.4.1. The tax administration shall collect the taxes from the taxpayer's property which may be sold in the market and sell the seized property in an auction. The valuation of the property and other assets seized for tax payment shall be performed in accordance with this Law article 26, then the tax payments shall be settled and withheld.
- 19.4.2. If the taxpayer tries to hide his property or assets, or tries to sell, or transfer them to others, the assets and property shall be sealed up and sequestered by the tax inspector according to the article 38 of the Law. If the taxpayer does not make the tax payment by cash within due dates defined by the tax administration, the tax administration shall apply for the court to collect the arrears from the sealed properties of him.
- 19.4.3. The arrears of the taxpayer shall be paid by taking particular property or asset as collateral in accordance with the article 38 of the Law.
- 19.4.4. The arrears of the taxpayer can be paid by selling his/her shares and securities in an auction.
- 19.4.5. In case the tax obligor/taxpayer is not able to pay the arrears, his/her properties that have been sealed or taken as collateral shall be sold at a public auction through the mass media and calculated as tax payments into the State budget.

Article 20. Extension of tax payment deadline

- 20.1. The tax administration shall set the deadline of tax payment by the following cases:
- 20.1.1. The tax payment deadline may be extended up to 15 working days from the day of handing the act on tax payment and tax liabilities to the taxpayer.
- 20.1.2. Within the 10 working days after the demand is made and handing the act on the fine and penalty tax amount which were revealed and defined by the inspection.
- 20.1.3. The tax payment deadline may be extended once by up to 60 days at the authorization of the director of tax administration according to the part 1, 2 and 6 in the paragraph 1 of the article 18, if the taxpayer has proved his/her ability to pay taxes within the extended time and written request of the taxpayer to extend the payment deadline has sufficient ground.

- 20.2. In the case of extension of the tax payment deadline the tax administration shall have the receipt of the tax payment schedule, calculations of resources to cover taxes and the plan of economic activities from the taxpayer.
- 20.3. In the case of extension of the tax payment deadline, the tax administration shall impose interest for overdue taxes in accordance with law without regard to the extension of the tax payment deadline

Article 21. Tax paying, withholding and refunding

- 21.1. In order to enforce the taxpayer's right, indicated in the part 5 of article 12 of the General Tax Law, if the total tax payment exceed the total taxes payable, the tax administration shall either:
 - 21.1.1. Credit them against other taxes that are due;
 - 21.1.2. Credit them against the next tax payments at the permission of the taxpayer;
 - 21.1.3. Refund the excess.
- 21.2. The tax administration shall notify the taxpayer in case of crediting the overpaid taxes.

SECTION 4
Tax Collection

Article 22. Collecting tax arrears

- 22.1. The tax administration shall collect the taxes in the following ways if the taxpayer fails to pay taxes, interest and fines within the required time set out by law:
 - 22.1.1. Collection on an undisputed basis;
 - 22.1.2. Collection from salary, wages and other income;
 - 22.1.3. Collection from the property or other income taken as collateral and then seized to sell in an auction;
 - 22.1.4. Application to the court.
- 22.2. In order to collect all tax arrears, implementation activities indicated in the part 1 of this article may be used in a combination.

Article 23. Collection of taxes on undisputed basis

- 23.1. If taxes have not been paid within the required time set out in paragraph 6 of the part 1 and the part 2 in article 18, and the part 1 of article 20 of this Law, the taxes payable shall be collected from the resources in the taxpayer's bank account on an undisputed basis. If the resources in the taxpayer's bank account can not cover the payment of taxes, then the outflow of transactions except those specified by court decisions shall be partially or completely terminated and the tax payment shall be made out of the inflow of funds into the bank account.
- 23.2. The notification list to collect tax payment in an undisputed basis prepared by the tax inspector shall be approved by the tax administration director and submitted to the banking organization. The notification shall contain the basis to collect taxes, interest, and fines, the amount and partial or complete termination of outflow of the account transactions.

Article 24. Collection of taxes from property, salary and other income and calculation in cash

- 24.1. If taxes have not been paid within the required time set out in the part 1, 2 and 6 in article 18, the part 1 and 2 in article 20, and if it is impossible to collect taxes on an undisputed basis as indicated in article 23 of this law, then the tax administration shall collect taxes from the taxpayer's property, salary, wages and other income upon agreeing with the taxpayer.
- 24.2. When the tax administration estimates the valuation of the property, salary and other income taken as tax payment, he/she shall be guided by the regulation and terminate the collection.

Article 25. Collection of taxes from salary and other income of taxpayer

- 25.1. In order to withhold from salaries, wages and other income of a taxpayer in accordance with article 24 of this Law, the tax administration shall be guided by the following procedures:
- 25.1.1. Send a payment form to an economic entity and organization, in which the taxpayer works or gets income from.
- 25.1.2. Upon receiving the notification, economic entity and organization shall withhold from taxpayer's income on monthly basis and transfer it to the account indicated in the payment sheet within 3 days after the withholding.
- 25.1.3. The tax withholding shall be made prior to any other payments other than those collected from salary and other income in accordance with the court decision.
- 25.1.4. If the taxpayer quits, the economic entity and organization shall return the payment form with information about the withheld amount for taxes and his/her new place within 7 days after the taxpayer quits.

Article 26. Collection of taxes from taxpayer's assets

- 26.1. When an attached property is to be sold at an auction, public notice through media such as newspapers shall be made after considering its quality, demand, damage, taxpayer's

- opinion and the fair value in the said district. In case such a sale cannot be completed within 30 days following the date of auction, the property will be sold at price available for sale, then its proceeds shall be paid into the budget.
- 26.2. When an attached property is to be sold at an auction, If the taxpayer wants, he/she or his legal representative shall be present in the auction.
- 26.3. If the proceeds from sale of property exceed the taxes payable and cost of the auction, it shall be decided in accordance with the article 21 of this law and notes shall be made.
- 26.4. A detailed notice shall be made on the attached property which was sold on the basis of the public notice through media.
- 26.5. In the event that its selling price is brought down, the tax obligor can take back the said property and make payment of the tax obligation in cash.

Article 27. Application to the court to collect tax arrears

- 27.1. If the taxpayer have not paid the taxes within the required time indicated in the paragraph 6 of the part 1 and the part 2 in the article 18 and the part 1 in the article 20 and if it is impossible to pay them in accordance with the procedures set out in the articles 24 and 25 of this Law, then the tax administration shall apply for the court to collect the tax arrears. Upon receiving the application, the court shall resolve it in accordance with the appropriate law. But the court cannot unfoundedly reduce or bring down and void additional taxes, interest and penalties that the tax administration has calculated as tax payments into the budget.
- 27.2. If the taxpayer willfully avoided paying taxes due and agreed on collection from assets in accordance with the article 24 of this law but hampered in the implementation activities for invalid reasons, then the tax administration shall investigate and resolve it as to be.

SECTION 5

Inspection and Conclusion Report of Tax Inspector

Article 28. Basis for issuing inspection and conclusion report of tax inspector

- 28.1. The tax inspector shall issue an inspection report on the basis indicated in the Item 3 of the Article 7, and shall issue a conclusion on the basis indicated in the Item 7 of the Article 7 of this law. The act comprises 2 parts: findings and decision.
- 28.2. The tax inspector's inspection report and conclusion shall become valid from the date of introducing to the taxpayer. The tax inspector shall take notes on service of the inspection report and conclusion. The act and the conclusion shall be signed and certified by the head of Taxation Department and the head of the Inspection Department. The inspection report and conclusion shall have the permanent number and index.
- 28.3. The inspection report and the conclusion are issued in triplicate. The first should be kept by the taxpayer, second by the tax administration for its auditing documents, and third should be kept for the taxpayer's personal file.

Article 29. Implementation of the inspection report and conclusion of tax inspector

- 29.1. The tax administration and the tax inspector shall apply to a court regarding to an inspection report and a conclusion, which are not being implemented within the tax administration and tax inspector's right and obligation.
- 29.2. The director of the division of tax office, in which the tax inspector works, and the senior tax inspector shall control over the implementation of the inspection report and conclusion made by the tax administration and the tax inspector.

Article 30. Change and cancellation of the inspection report

- 30.1. If the state tax inspector's inspection report or conclusion is considered groundless, the director of the corresponding tax office shall change or suspend the inspection report and conclusion.

- 30.2. The basis / reason and evidence / of the inspection report and conclusion, made by the tax administration and the tax inspector, shall be determined by the special commission appointed by the head of Taxation Department.

SECTION 6

Responsibilities for Other Organizations

Article 31. Responsibilities for banking and financial organizations

- 31.1. Banks and other financial organizations shall have the following responsibilities concerning tax issues:
- 31.1.1. To notify the tax administration of the information on opening a new bank account ("account") and changing the number of the account in accordance with the Law on Savings, Payment and Banking Loans within 10 working days.
- 31.1.2. To fulfill the taxpayer's orders concerning tax payments and tax administration demand in an undisputed way regarding payments of tax, interest and fines on a priority basis before making any payments, other than those provided by the court decision, to the involved bank, financial institutions and other lenders and creditors.
- The above mentioned responsibilities concerning tax payment shall not apply toward the Article 17 Item 2 of the Law on Savings, Payment and Banking loans.
- 31.1.3. Pursuant to the paragraph 4 in the Article 24 Item 1 of the General Tax Law, to fulfill tax administration decision to temporarily terminate the payment transactions of a taxpayer's bank account until the tax payments are made.

Article 32. Responsibilities for police organization

- 32.1. The police organization shall assist the tax administration or tax inspector when they face organized resistance and using force in carrying out accessing residence as well as auditing inspection and inventory.

- 32.2. The police organization shall assist the tax administration in registering and carrying background check in citizens of Mongolia, foreign citizens and stateless persons by providing information and data, which shall not contain any personal confidentiality.
- 32.3. At the tax administration's request, the police organization shall organize a search throughout the entire country by sending search parties to find the economic entity and organization or the taxpayer who deliberately avoided or escaping from paying their taxes due, and the police organization shall cooperate with the tax administration.

Article 33. Responsibilities for other organizations

- 33.1. Investigative and administrative or other state organizations and officials shall have the duty to report to the tax administration any information on tax violations, which are found during their activities.
- 33.2. The customs organization shall supervise over the taxpayer's registration number on the customs declaration and provide the tax administration with information on the taxpayer's export and import activities.

SECTION 7

Other Issues

Article 34. Procedures in payment and imposition of interest and fines

- 34.1. Interest shall be imposed on late payment for the period between the payment deadline set out in the law and the payment date.
- 34.2. If the taxes overpaid due to errors of the tax administration, the excess must be refunded and interest of 0.3 percent shall be calculated in the refunded taxes for the period from the budgeted date to the refunded date. This interest shall be financed by the budget.

Article 35. Dispute resolution at administrative level

- 35.1. The taxpayer's complaints regarding tax issues, unless it is not indicated differently in this law and other tax laws, shall be resolved in accordance with the law on Citizen's complaint resolution over State organizations and officials.
- 35.2. The taxpayer's complaints over tax inspectors' decision regarding tax issues shall be resolved in the following way:
 - 35.2.1. Complaints over tax inspectors' decision may be forwarded to the tax office, in which the involved tax officer works.
 - 35.2.2. Complaints over tax inspectors' decision may be forwarded to the headquarters of the tax administration.
 - 35.2.3. If the taxpayer considers that it is necessary, he/she may bring his/her complaints to any higher tax administration.

Article 36. Bringing complaints to court

- 36.1. The taxpayer shall have the right to bring his/her complaints over tax office decision to a court only in this case the taxpayer's complaints, which were forwarded according to the part 2 and 3 in the article 35 of this Law, are rejected. However, the taxpayer may have no right to bring his/her suit to a court in the case that he/she has not complied with the legal requirements such as reporting or deadline of the tax obligation.

Article 37. The reason of sealing of property

- 37.1. The tax administration and state tax inspector may seal or collect a taxpayer's property, money, document, records, residence and storage (hereinafter referred to as "property") on the following basis and time period if the taxpayer has to pay tax liabilities exceed from the dates due:
 - 37.1.1. In case the taxpayer has not paid the payment, interest and penalty within the required time set out.
 - 37.1.2. Until the tax auditing, inspection and counting activities are completed;

- 37.1.3. If the taxpayer has not paid the taxes within the due date set out by the Law and defined the tax administration.
- 37.2. The tax administration shall notify the Real Estate Registry Office of such an event when real estate is being sealed, taken as collateral or seized by it.
- 37.3. Properties that have been sealed or taken as collateral will be under the control of the owners at all times.
- 37.4. The tax administration shall take the following procedure within 60 days with regard to properties that have been sealed or taken as collateral :
 - 37.4.1. In case the tax obligor is not able to pay the tax obligations in cash, such properties are seized by a jurisdictional tax administration and sold at a public auction advertised through the mass media.
 - 37.4.2. Upon the expiration of the period defined in the subparagraph 2 in the paragraph 1 of the article 37 of the Law, such properties that have been sealed and taken as collateral shall be returned to the said tax obligor.
 - 37.4.3. At the expiration of the period defined in the subparagraph 3 in the part 1 of the article 37, or from the time that the taxes are not deemed to be paid voluntarily after the demand is made, the tax administration will have the right to sell such properties.

Article 38. Procedure on taking properties as collateral

- 38.1. In case it has been proved that the involved taxpayer is not able to pay the taxes, fine and penalty within the required time set out by the Law or if his/her bank account is showing the fact that he/she is not able to pay the taxes, fine and penalty in cash, then his/her certain properties shall be taken as collateral and seized by the tax administration.
 - 38.1.1. Properties, taken as collateral for tax obligation, shall belong to the owner.
 - 38.1.2. The tax administration shall make a contract with the taxpayer on the valuation of the property and its quality, shape, location, and whom it does belong when he takes the property as collateral. If real estate has been taken as collateral the tax inspector shall notify the real estate registry office of such an event.
 - 38.1.3. The deadline of the contract will be set out by the taxpayer and the tax administration. As soon as the deadline is over the property that has been taken as collateral shall be

paid into the tax administration's budget. The property shall be sold in accordance with the part 3 in the article 26.

- 38.1.4. The taxpayer, whose property has been taken as collateral, has right to get back his property in case he/she pays the taxes within the due date. The tax inspector and tax administration shall not use, spend, break or destroy the properties. If there is any damage to the property, taken as collateral, the tax inspector and tax administration shall be responsible for that.
- 38.1.5. If the proceeds from sale of the property cannot cover the tax payments, the taxpayer will not be released from the responsibilities to pay the remaining taxes.
- 38.1.6. The following properties shall not be taken as collateral, sealed and seized:
 - 1) Clothing of the family which they wear and use in their everyday life
 - 2) The properties which do not belong to the taxpayer
 - 3) Food and food stuff which spoil easily
 - 4) Second hand and worn-out furniture and things
 - 5) House or residence where the taxpayer lives permanently
 - 6) Fuel such as wood and coal if it is winter

Article 39. Procedures on sealing property

- 39.1. The sealing of property shall be carried out by the designated officer and state tax inspector in charge of performing tax auditing, inspection and counting;
- 39.2. The taxpayer, his/her legal representative, or the local government representative shall be present during sealing of property.
- 39.3. The tax inspector, who performed sealing of property, shall issue an act and notes. The notes shall contain the property amount, the quality, size and specifications. An act shall contain the basis and time period of sealing properties.
- 39.4. A witness shall be present during the sealing of property. The witness shall be responsible for giving evidence of sealing of property and sign the notes.
- 39.5. The tax inspector shall seal and wax the property and hand over to the owner.

39.6. The owner shall be responsible for safekeeping of sealed property. It is unauthorized for the owner to remove the seal without permission of the tax administration, sell or transfer the sealed properties.

The tax inspector shall explain the legal responsibilities for failure to perform his/her duties. The notes on explanation shall be signed by the owner.

Article 40. Temporarily termination of business activities

40.1. According to the order of the head of the GDNT, the tax administration may temporarily terminate the taxpayer's business activities if severe or recurring violations are detected during the tax auditing, until the eradicating activities which violate the tax laws and the underlying factors are cleared.

40.2. The taxpayer and his/her legal representative may bring complaints regarding to activities described in article 37, 38, the part 1 of article 38 of this Law to the tax administration or a court. When such a complaint is rejected, the taxpayer may appeal to an upper tax administration. In case that it is not recognized at that level, such a complaint may be filed at the supreme tax administration. Only in the case that the complaint is rejected by the supreme tax administration can it be lodged in the courts.

Article 41. Responsibilities for breach of tax law

41.1. If criminal responsibilities are not suitable for the following citizen and officials of an entity, who violated the law on supervision of tax levy, payment and tax collection, the tax administration and tax inspector shall impose the following administrative penalties:

41.1.1. A fine of 30,000-1,000,000 Tg shall be imposed on a citizen, an accountant, a director or an official and a head of any economic entities who has failed to register with the tax administration within the required time set out in the part 1, 2, 3, 4, 5, 6 and 7 of the article 5 of this law and violated State Registration's regulation, and or failed to pay the taxes and define the tax return correctly; set the term of living in Mongolia falsely; carried out service and manufacture without paying taxes by an individual proprietor whose income cannot be defined each month, and used fraudulent information or altered the dates on it.

- 41.1.2. A fine of 3,000-1,000,000 Tg shall be imposed on a citizen and official, who has failed to submit financial statements on the tax liabilities and other taxable property; failed to take notes on essential accounting materials; concealed income that shall be paid as tax liabilities; increased the expenses without any reason; defined the condition of exempting from tax liabilities wrongly; failed to translate the necessary documents written in English into Mongolian and failed to keep materials and documents concerning to tax and financial liabilities until the due date set out in the law.
- 41.1.3. A fine of 30,000-1,000,000 Tg shall be imposed on a taxpayer who has failed to fulfill his duty set out in General Tax Law, failed to pay his taxes by submitting the tax return, written in the form to determine the income, to the tax administration within the required time; failed to sign on the tax return, failed to have the tax calculation sealed by the certified public tax accountant and put the stamp.
- 41.1.4. A fine of 50,000-1,000,000 Tg shall be imposed on citizens and officials who has failed to withhold at source, transferred the taxable property to others and did not notify it to the tax administration.
- 41.1.5. A fine of 50,000-2,000,000 Tg shall be imposed on a citizen and official, who has failed to fulfill the requirements set out in acts, documents, notifications and payment sheet; for the resistance to the tax inspector and authorized person to carry out inspection on documents, property and money counting, perform surveillance and inspection, hampering the activities and exerting pressure on the tax administration and tax inspector. If a taxpayer or a citizen and official seriously hampers and bothers the inspector's activities and inspection he/she will be arrested in accordance with the administrative penalty law.
- 41.1.6. A fine of 50,000-5,000,000 Tg shall be imposed on a citizen and official who has bought or lost the properties that had been sealed and taken as collateral by the taxpayer, or transferred them to other people or broken them.
- 41.1.7. A fine of 50,000-5,000,000 Tg shall be imposed on a citizen and official who has violated the resolution of terminating his/her trade, manufacture and other service activities issued by the tax administration because of his violation the Law; and his/her equipment, machine or any technical items, house or residence and warehouse which he/she used to carry out the prohibited activities shall be seized and paid into the State budget.

- 41.1.8. A fine of 50,000-5,000,000 Tg shall be imposed on following officials of organizations, that have a close and constant relationship and contact with the tax administration, who have failed to fulfill his/her duty set out in the Law
- 41.1.9. A bank official who has failed to fulfill the requirements or notification of terminating the taxpayer's out-flowing bank account /credit note/ ; failed to transfer the income from the taxes, interest and penalty; failed to execute and fulfill the taxpayer's demand and failed to provide the taxpayer with the information related to payment slip in the bank account of an entity, according to the article 31 of the Law.
- 41.1.10. An official of the Police, who has failed to inspect and examine in detail the location or a place or an address of the taxpayer who deliberately avoided to pay taxes and escaped; and failed to fulfill his duty to assist the tax administration at their request.
- 41.1.11 A Custom official who has failed to provide the important data or information and survey related to the export and import service activities carried out by the taxpayer.
- 41.1.12. An official of the General Department of Satisfying Judgement Resolution who has failed to complete the payment related activities and failed to submit the payment into the State budget and delayed the transferring of the tax payment for 3 days
- 41.1.13 An official of a financial organization who has failed to fulfill his/her duty to provide with news, data, information, report, and tax return concerning to the expenses in accordance with the article 31 of the Law

Article 42. Entry into force

This law shall come into force from

