JAPAN INTERNATIONAL COOPERATION AGENCY (JICA)

General Department of National Taxation
MONGOLIA

THE STUDY ON THE SUPPORT FOR THE ECONOMIC TRANSITION AND DEVELOPMENT IN MONGOLIA

TAX COLLECTION ENHANCEMENT PHASE Ⅱ

(DEVELOPMENT OF TAXPAYER INFORMATION SYSTEM)

FINAL REPORT

VOLUME Ⅰ: MAIN REPORT

March 2003

INSTITUTE FOR FINANCIAL AFFAIRS, INC.

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Abbreviations

JICA	Japan International Cooperation Agency
GDNT	General Department of National Taxation
CGA	Custom General Administration
WAN	Wide Area Network
DBMS	Database Management System
Tg	Togrog

Currency Equivalents

As of March 2003

1,120Tg / USD 1.00

117.30Yen / USD 1.00

PREFACE

In response to a request from the Government of Mongolia, the Government of Japan decided to conduct the Study on Tax Collection Enhancement – Development of Taxpayer Information System, and entrusted the study to the Japan International Cooperation Agency (JICA), under the framework of the "Study on the Support for the Economic Transition and Development in Mongolia".

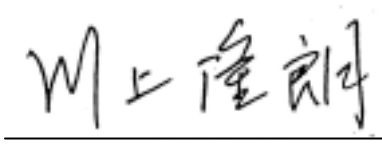
JICA selected and dispatched a study team, headed by Mr. Yujiro KOYANAGI of Institute for Financial Affairs, Inc., seven times between December 2001 and February 2003. In addition, JICA set up an advisory committee chaired by Prof. Shinji ASANUMA of Hitotsubashi University between November 2001 and February 2003, which reviewed the study from professional and technical points of view..

The Team held discussions with the officials concerned in the Government of Mongolia, conducted field surveys at the study area and implemented seminars on the reform of the tax collection system. Upon returning to Japan, the team conducted further studies and prepared this final report..

I hope that this report will contribute to the promotion of this project and to the enhancement of friendly relationship between our two countries.

Finally, I wish to express my sincere appreciation to the officials concerned in the Government of Mongolia for their close cooperation extended to the study.

March 2003



Takao KAWAKAMI
President
Japan International Cooperation Agency

March 2003

Mr. Takao Kawakami
President
Japan International Cooperation Agency

Dear Mr. Kawakami,

Letter of Transmittal

We are pleased to submit our report entitled "Tax Collection Enhancement Phase Ⅱ (Development of Taxpayer Information System)" for the "Study on the Support for the Economic Transition and Development in Mongolia". The report describes the results of the Study conducted by Institute for Financial Affairs, Inc. in accordance with the contract entered into with the Japan International Cooperation Agency (JICA).

Our Study Team carried out field survey seven times within the period December 2001 and February 2003. Substantial amount of discussions were held with Mongolian Government and General Department of National Taxation. Study Team undertook concrete and practical technical assistance including preparation of taxpayer information system and finally prepared this report.

In view of the necessity of tax collection enhancement in Mongolia and the need for socio-economic development of Mongolia as a whole, we recommend that the Mongolian government implement this Project as a top priority.

We wish to take this opportunity to express our sincere gratitude to your Agency, the Ministry of Foreign Affairs, the Japanese Embassy in Mongolia and the JICA Mongolia office. We also wish to express our deep gratitude to the Government of Mongolia, the General Department of National Taxation and other concerned organizations for the kind cooperation they extended to our Team, as well as for the warm hospitality provided during our stay in Mongolia.

Very truly yours,

Yujiro Koyanagi
Team Leader
The Study on the Support for the Economic Transition And Development in Mongolia
Tax Collection Enhancement Phase Ⅱ (Development of Taxpayer Information System)

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EXECUTIVE SUMMARY

1. The Background and the Objectives of the Study

The Government of Mongolia has requested the Government of Japan to undertake a development study to support the formulation of a development strategy, a public investment plan, and concrete economic reform plans in Mongolia in its drive to transform it from a socialist economy to a market economy and to develop the human resources to formulate economic policies in Mongolia. This development study was conducted from September, 1998 to March, 2000.

Tax Collection Enhancement Phase I was conducted as a major component of the aforementioned study. Its objectives were to make recommendations to enhance the collection capabilities in fiscal revenues and to undertake technical transfers to the Tax Collection Officers at the field level of General Department of National Taxation(GDNT). The Mongolian Government highly regarded the results of the study and had requested the Japanese Government for continuing support in this area. Based on this request, Tax Collection Enhancement Phase II was conducted. In the process of conducting the studies in Phase II, it became apparent that the development of a Taxpayer Information System was essential in order to enhance the Tax Collection Rate, and the Mongolian Government, once again, requested an extension of the study to the Japanese Government and both governments have come to agree on such an extension.

The objective of the study is to reduce the fiscal deficits and put in place a sound fiscal foundation by enhancing the GDNT's administrative functions and executions. Particularly, in this Study, support is provided to the preparation of the Taxpayer Information System. Specifically, by creating an information exchange system among administrative agencies such as Customs General Administration (CGA)and the GDNT, the data gained through such exchange will be stored in the database created in the GDNT. These data will be accumulated into the database in just the same way as it is done for information collected by the tax examiners. These data will be shared in the GDNT and an objective of the Study is to build a system to utilize the information to enhance the examination efficiency and bring about the result of an increase in fiscal revenues.

The Study was conducted by allocating responsibilities according to sectors as outlined below.

Taxpayer Information Sector
Examination to clarify the location, within the GDNT and other administrative agencies, of information relating to a taxpayer and to identify the information that is deemed useful in tax examinations and to be entered into the Taxpayer Information Database. After the identification of information that ought to be entered into the database, provide advice as to the format and the organization and make recommendations as to how this information can be utilized in examinations.

Information System
Provide support in building of a database within the GDNT relating to taxpayer information.

Customs Sector
Grasp the situation existent at the Customs, which is thought to be the most important counterpart in exchange of information, and present plans for improvement with respect to the Customs System.

Tax Staff Training Sector
In addition to conducting a review of tax staff training, the examination methodology utilizing the taxpayer information that had been built will be compiled into a manual.

2. Collection and Utilization of Third Party Information Useful in Tax Examinations

The GDNT, using the Guide for Collection and Utilization of Third Party Information (Draft) submitted by the Study Team as a reference, has enacted “Rules for Collection of Third Party Information Relating to Taxpayers and Its Utilization in Tax Examinations” under GDNT Director General Directive No. 171, dated September 12, 2002. According to the rules, as third party information is useful for tax examinations, the information is classified into the following four categories: (i) information from other administrative agencies, (ii) information from individual and corporate taxpayers, (iii)

internal information held by the tax offices, and (iv) information from mass media reporting tools including newspapers and other printed material, radio and television. The guide also presents the types, the sources, the methods of collection, the persons responsible for its collection and the timing for the collection for each of the categories.

In addition, with the building of the Third Party Information Database, information to be collected and utilized using PC processing include the following: "Customs Information", "VAT Invoice", "Alcohol Allocation and Sales Information", "Detailed Withholding Tax Return Forms 11(2) and (3)" that are submitted by enterprises and "Third Party Information Paper". Customs Information, Alcohol Allocation and Sales Information, and the Third Party Information are entered in bulk at GDNT Information Processing/Automation Department and periodically distributed to each taxing institution to be used in tax examinations. Other types of information will be collected and utilized as paper-based information. Therefore, the report presents the points on which emphasis should be placed on and points that need to be considered in actually utilizing the information in examinations for each of the principal types of information raised above. The details of the procedures for the information management are presented in the Guide (Draft) above.

3. Status and Issues of Taxpayer Administration Using Taxpayer Number

A prerequisite for the realization of just and fair taxation is an adequate administration of taxpayers, both individuals and enterprises. Adequacy of taxpayer administration organization means that all taxing institutions have accurately and completely identified all taxpayers that need to be administered within their respective jurisdictions. In other words, there is no duplication or omissions in the identification of taxpayers in all taxing institutions.

Today, since the introduction of the modern tax information system, GDNT has recorded into the Taxpayer Information Database in each taxing institution taxpayer numbers for both individual and corporate taxpayers and at the same time, the same numbers have been registered in GDNT's Taxpayer Information Database. Through this, a system in which all of the taxpayers for all taxing institutions can be administered centrally and uniformly has been established. Naturally, a method that avoids duplication of taxpayer numbers in the cases of both individuals and enterprises has been adopted. With respect to individuals, the 10-digit individual registry number assigned by the Citizen Registration Information Department at the time of birth is used as the taxpayer number. In the case of enterprises, a 7-digit state registration number prepared by the

GDNT in advance and assigned to the enterprise at the time of approval for establishment by the State Registration Office is used as the taxpayer number.

4. Third Party Information Database System

(1) Significance of the Electronic Processing of the Taxpayer Information and the Outline of the Third Party Information Database System

Fig.1 shows the outline of the system in this project.

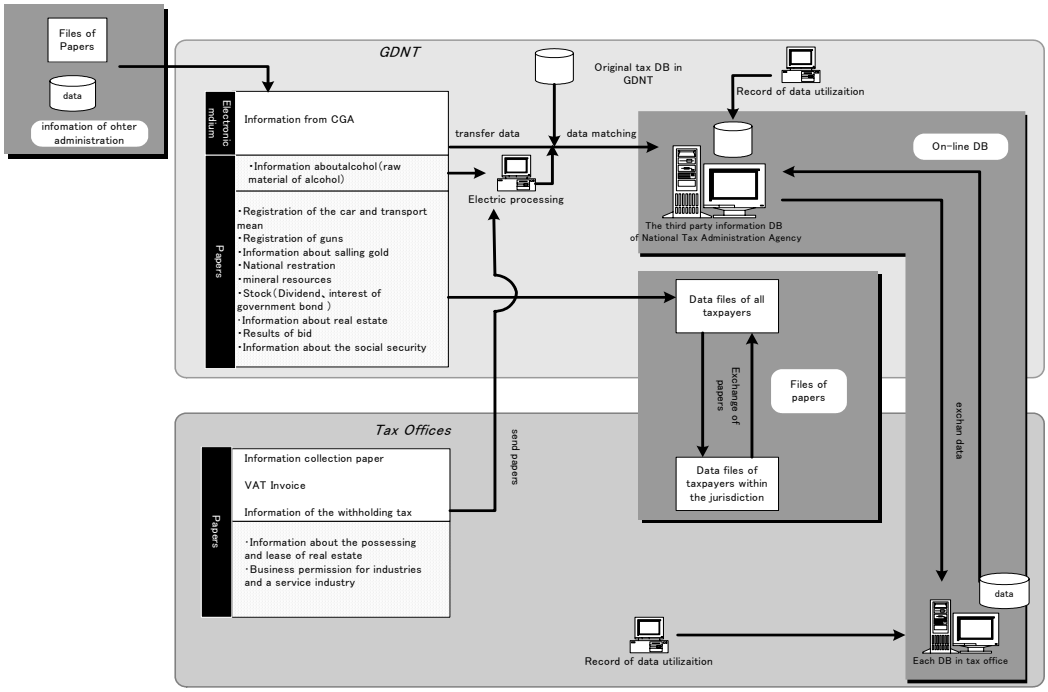

Fig. 1 The outline of the third party information database system

By supporting the electronic processing of the taxpayer information, it is expected to help enhance equality in taxation which is one of the major objectives of this project. It will also achieve the following:

- The ability to check the veracity of the tax return by comparing it against the tax information
- Improvement in the efficiency of the examination by using complete and detailed examination information
- Support in the planning of a taxation policy with comprehensive tax information

From this point in this project, we supported to construct the database of the taxpayer information incorporating what the third party can offer. This database system has four characteristics. They are as follows:

1. Construction of the database of taxpayer information created by the third party
2. Construction of the client-server type system
3. Information transfer between the remote areas with the Wide-Area Network (WAN)
4. Grasp of the history of utilization of information and security

(2) Functions and Composition of Third Party Information Database System

The third party information system has six functions. They are as follows:

- Data retrieval
- Data comparison
- Data report
- Data exchange
- Data utilization management
- Data security

Types of information available are derived from customs declarations, collection papers, and alcohol related information. VAT invoices and withholding-related data will be stored when the environment of data collection and input is more stable.

The type of third party information database system is a Client-Server Model composed of PCs running on MS-Windows 2000 as the operating system and Oracle9 as the database management system (DBMS).

(3) Operation of the Third Party Information Database System

Information Processing/Automation Department of the GDNT maintains this data and administrates user accounts. They store the data uploaded from the CGA with WAN. Regarding the other types of information offered by the paper, data-entry is required. The stored data is maintained periodically.

Each data from the taxpayer information is matched with the taxpayer identification number when a new record is created or when a taxpayer file moves

into another administrative area of the tax office.

The information stored in the database at the GDNT and the tax office is used when the examiners need information. A request for a report must be submitted by the examiner to the computer operator. Each data is stored in the database for a period of seven years after which it is deleted from the database. The history of the data utilization is recorded automatically.

For the security of the system, the function that supervises the utilization of information is established and the history trail of the data on the OS is checked. The data is backed up into a large capacity medium. Moreover, the entry log of the machine room is checked, and the procedure for the down time is prepared.

(4) The Outline of the Transfer System of Taxpayer Information

In this project, the system that downloads the taxpayer information from the GDNT to the CGA was developed. The file containing the taxpayer information is created periodically, and the file is saved into the folder in the server of the GDNT. The officer of the CGA then makes a copy into the server of the CGA with the WAN.

(5) The Future Tasks for the Electronic Processing of the Taxpayer Information in Mongolia

Regarding the third party information database system, retrieving of the record from multi-table, extension of the contents of information and improvement of efficiency of data entry are the tasks to be tackled.

As for the task of a data exchange system of taxpayer information, the development of the system for the utilization of the uploaded information from CGA should be facilitated.

Integration of the two systems of the GDNT is required as the comprehensive taxpayer information system of the future.

5. Customs Administration

Mongolian customs offices can be divided roughly into two types: border customs such as Dzamin Uud, Sukhbaatar and destination customs such as Ulaanbaatar(UB). Different from destination customs offices, border customs have to handle not only import and export clearances but also transit transportation. For the purpose of increasing duty collection, it is desirable that destination customs receive cargo

information from border customs as soon as possible. The ongoing customs automation project will enable prompt data transmission, thus the potential of increasing national income.

Considering China's gradual emergence as an economic power-house (Mongolia's trading partner), trade with China will continue to increase, thus the need for Mongolia to secure access with China. However, due to the poor road infrastructure, vehicle transportation is impossible. Unless road infrastructure is improved, the importance of railroad transportation and UB customs will increase. UB customs, as the destination customs, will need to prepare for the future to ensure that it has the ability to meet future demands. In order to implement speedy clearance and duty collection at UB customs, it is considered that identifying product importers and rearing international transport business providers are necessary.

Usually, Mongolian customs officials regard the importer's declaration as not trustworthy; therefore, 100% physical inspection is inevitable requiring a lot of time and reducing the transparency for customs procedures. To the contrary, under the 'Compliance' concept, quick customs clearance is possible for product importers or for those who have completed a customs declaration form. This practice is widespread in advanced countries. One of the benefits of this system is it cuts the inspection time in customs procedures. Taking into account the current customs computer system, by shifting the data entry operation from the customs officers to the brokers, one can expect a higher efficiency level for customs operations; however, the following points may pose to be obstacles to immediate customs clearance:

a. 100% physical inspection system will continue after the introduction of the newly revamped customs computer system
b. Without the existence of a database with commodity prices information, the computer system cannot make sound judgments as to the basis of the declared value.
c. Without a database of importers' information, the computer system cannot judge importer reliability.

Neither the creation of the databases nor the quality judgment function needed is addressed in the present computer project. At the next stage, in order to upgrade the customs service level, it is necessary to introduce a risk management system, which is

able to judge the quality of declarations and importers. This improvement can abolish the mandatory physical inspection and reduce clearance time.

The automatic clearance system has produced positive and visible results, and it has established a suitable environment for a risk management program. Mongolian authorities are now more knowledgeable about the concept of risk management. Moreover, it has proven to be competent by developing a computerized customs system on its own. Thus, Mongolia should be able to adopt a risk management system without much difficulty.

6. Tax Staff Training

(1) Future Project Draft

Based on the analysis of the existing status and identification of new issues, a draft for the desirable tax staff training project has been prepared, the draft is comprised of two components: (i) development of human resources within the GDNT and (ii) enhancement of the level of tax accounting.

The project's long-term objectives include the support for the economy's transition to the market economy and its development. Through the establishment of an organized training system and technology transfer relating to its operation, it will enable the enhancement of the ability of the tax staff to respond to the diversifying economic transactions and also lead to increase in tax revenues through the enhanced collection capabilities. This will ultimately result to the ability of the GDNT to autonomously develop their in-house training programs.

For the newly recruited staff, an "Introductory Course" with the objective of cultivating awareness as a civil servant and instilling the necessary knowledge and technical skills as tax staff will be established. From among the staff who have completed the "Introductory Course", a screening examination will be given taking into consideration internal examinations and work performance. For the successful candidates, an "Intermediate Course" to cultivate awareness and abilities as middle managers will be offered. In addition, after a certain period of time has elapsed upon completion of the "Intermediate Course", considering the work performance, a group will be selected to attend an "Advanced Course" in which research activities relating to taxation theory and tax administration will be undertaken with the objective of gaining the knowledge and the skills as executive staff with the ultimate aim of developing human resources who are able to make policy recommendations. Text and teaching materials appropriate to each training

level will also be developed.

In addition, in order to achieve the objectives above, it is necessary to raise the level of tax accounting in Mongolia in both the public and the private sectors and as a means to this end, a certification system for tax accounting will be introduced, and the implementation plan and the operation will be presented.

(2) Project Contents and the Products

Specific items of the project are as follows:

① Tax Staff Training

a. Preparation of the Personnel System
b. Development of the local training systems
c. Curriculum development
d. Development of text and video teaching materials
e. Development of training instructors
f. Measurement of training effectiveness
g. Special training for GDNT staff in Japan

② Raising the Level of Tax Accounting

a. Analysis of the state and issues of tax accounting education and standards
b. Examination of the feasibility of the introduction of a certification system
c. Formulation of a proposal to structure the operational organization for the implementation of the system and its guidelines
d. Preparation of a business plan for the operating body

③ Assumed Outputs from the Study

a. Training materials relating to tax and accounting
b. Creation of tax staff training program
c. Creation of video teaching materials
d. Certification system examination questions for tax accounting
e. Creation of a certification system for tax accounting
f. Creation of an operating model for the implementing institution

Chapter 1

Collection and Utilization of Third Party Information Useful for Tax Examinations

1 Collection and Utilization of Third Party Information Useful for Tax Examinations

1.1 The Importance of Data in Tax Examinations

Data System in tax administration plays a wide and important role through its assistance in the following areas: preparation of tax statistics, taxpayer administration and tax examinations. Particularly, data which is required for performing tax examinations accurately and efficiently is vital in promoting just and fair taxation under the self-assessment system.

Data utilized in tax examinations is referred to as “third party information”, “external information” or “taxation data” and its functions include primarily to check the taxpayer’s non-reporting or underreporting and guide taxpayers to autonomously file proper tax returns. Secondly, its direct link to tax examinations aids in the identification and selection of examination targets. The use at the examination site greatly enhances the efficiency of tax examinations.

In this chapter, (i) types of information and methods of collection of such information that are useful taxation data in tax examinations and (ii) how the data that has been collected will be utilized will be examined.

1.2 Information Useful in Tax Examinations: Types and Methods of Collection

At the GDNT, based on the “Guide for Collection and Utilization of Third Party Information (DRAFT)” presented by the Study Team, “Rules for Collection of Third Party Information Relating to Taxpayers and Its Utilization in Tax Examinations” under General Department of National Tax Agency Director General Directive dated September 12, 2002 was established. Under the rules, third party information is classified into four categories: (i) information from other administrative agencies, (ii) information from individual and corporate taxpayers, (iii) information from internal documents in tax offices, and (iv) information from mass media such as printed materials including newspapers, radio and television. The classifications also contain the source of the information and the details of the information. At the same time, a system is being developed in which some of the information through a mutual

information provision agreement with the information source or the GDNT on its own information are entered through the PC into the Third Party Information Database, which can be accessed at anytime from the database of the taxing institution in need of such information for use in tax inspections and the like. With respect to information that is not processed through a PC, they are utilized as paper-based information but the usefulness of both types of information is the same. However, the principal focus of the database information management is to enable quick and efficient processing of data and this system should be utilized to the maximum extent possible, but it must be noted that there are some types of information that should be used as paper-based information and not processed by the PC.

The following tables summarize types of third party information that are thought to be useful in tax examinations, its sources, persons responsible for its collection and the timing of the collection. The principal items contained in Table 1 and Table 2 are items that are stated in the abovementioned Third Party Information Rules. Table 1 contains information to be processed on a PC "PC-Based Information" and Table 2 contains information on paper "Paper-Based Information". Further, the GDNT plans to convert , to the extent possible, currently utilized Paper-Based Information into PC-Based Information.

Table.1-1 Types and Collection Methods of Third Party Information Useful in Tax Examinations (PC Based Information)

Information Type	Source	Collection Method	Person Responsible for Collection	Time of Collection
Customs Information	Customs Agency	•PCBased Third Party Information Database(conversionof customs database)	GDNT (Person in-charge of Third Party Information)	Monthly
VAT Invoice	VAT Taxpayer	•Submitted by VAT taxpayer to a taxing institution • PC Based Third Party Information data base	Each Taxing institution (Person in-charge of Third Party Information • tax examiners)	Monthly
Alcohol allocation Information	Ministry of Agriculture and Husbandry	•Prepared from "Alcohol Allocation Report" prepared by the Ministry of Agriculture and Husbandry • PC Based Third Party Information data base	GDNT (Person in-charge of Third Party Information)	Monthly
Alcohol Sales Information	Alcohol Manufacturers	•Prepared from "Alcohol Sales Report" submitted by the alcohol manufacturers • PC Based Third Party Information data base	GDNT (Person in-charge of Third Party Information)	Monthly
Corporate Withholding Tax Return (For compensation paid) Form TT11 (2)	Corporate Withholding Tax Taxpayer	•Prepared from Return TT 11(2) submitted to the taxing institution • PC Based Third Party Information Database	Each Taxing institution (Person in-charge of Third Party Information • tax examiners)	Quarterly
Corporate Withholding Tax Return (for materials purchased from individuals) Form 11(3)	Corporate Withholding Tax Taxpayer	•Prepared from Return TT 11(3) submitted to the taxing institution • PC Based Third Party Information data base	Each Taxing institution (Person in-charge of Third Party Information • tax examiners)	Quarterly
Information Paper from Third Parties	Taxpayers, mass media, etc.	•Prepared by the examiner during tax examination or based upon information collected from mass media, mailed information, rumors, etc.	Each Taxing institution (Person in-charge of Third Party Information • tax examiners)	As needed

Table.1-2 Types and Collection Method of Third Party Information Useful in Tax Examinations (Other Portions)

Information Type	Source	Collection Method	Person Responsible for Collection	Time of Collection
Citizen Registration Information	Citizen Registration Information Department	GDNT periodically collects paper based information regarding registry of citizens (new • relocation in • relocation out) (in the future planned to be input into PC at GDNT)	Each Taxing Institution (Person in-charge of Third Party Information)	Quarterly
Real Estate Registration Information	Real Estate Registration Bureau	GDNT periodically collects paper based information regarding transfer of real estate (sales • grants) (in the future planned to be input into PC at GDNT)	GDNT (Person in-charge of Third Party Information)	Annually

Social Insurance Registration	Social Insurance Bureau	Each taxing institution collects periodically paper based information regarding payment of social insurance premiums (in the future planned to be input into PC at GDNT)	GDNT (Person in-charge of Third Party Information)	Quarterly
Motor Vehicles Registration Information	Traffic Police Bureau	Each taxing institution periodically collects paper-based registry information on vehicles. (in the future planned to be input into PC at GDNT)	GDNT (Person in-charge of Third Party Information)	Quarterly
Firearms Registration Information	Police Agency	Each taxing institution periodically collects paper-based Firearms Registry information. (in the future planned to be input into PC at GDNT)	GDNT (Person in-charge of Third Party Information)	Annually
Gold Sales Information	Mongol Central Bank, commercial banks, National Appraisal Administration Bureau, Mineral Resource Management Bureau	GDNT periodically collects paper-based information regarding sales of gold. (in the future planned to be input into PC at NTA)	GDNT (Person in-charge of Third Party Information)	Monthly
Mineral Resource License Information	Mineral Resource Management Bureau	GDNT periodically collects paper based information regarding parties obtaining mineral resource licenses (in the future planned to be input into PC at GDNT)	GDNT (Person in-charge of Third Party Information)	Quarterly
Stocks, State and Corporate Bond Information	Securities Exchange	GDNT periodically collects paper based information (in the future planned to be input into PC at GDNT)	GDNT (Person in-charge of Third Party Information)	Quarterly
Bid Results Information	Each Administrative Agency	GDNT periodically collects paper based information (in the future planned to be input into PC at GDNT)	GDNT (Person in-charge of Third Party Information)	As required
Gold Extraction and Project Implementation Information	Central Bank and Other Authorized Commercial Banks	GDNT periodically collects paper based information (in the future planned to be input into PC at GDNT)	GDNT (Person in-charge of Third Party Information)	Quarterly
Insurance Information Relating to Real Estate • Automobiles • Livestock	Insurance Companies	GDNT periodically collects paper based information (in the future planned to be input into PC at GDNT)	GDNT (Person in-charge of Third Party Information)	Quarterly
Land Rental Information	Each Land Administration Bureau	Each taxing institution periodically collects paper based information (in the future planned to be input into PC at GDNT)	Each taxing institution (Person in-charge of Third Party Information)	Quarterly
Business Permits and Licenses Information	Production • Service Business Administration Bureau of	Each taxing institution periodically collects paper based information (in the future planned to be input	Each taxing institution (Person in-charge of Third Party	Quarterly

	Administrative Agency in Each Region	into PC at GDNT)	Information)	
Special Tax Stamps Usage Information	GDNT Legal Execution Coordination Bureau	GDNT periodically collects paper based information (in the future planned to be input into PC at GDNT)	GDNT (Person in-charge of Third Party Information)	Monthly
Statutory Receipt	Taxpayers	Submitted by taxpayers to each taxing institution (in the future planned to be input into PC at GDNT)	Each taxing institution (Person in-charge of Third Party Information)	Monthly
Information Regarding Purchase of State Property	State Property Commission	GDNT periodically collects paper based information (in the future planned to be input into PC at GDNT)	GDNT (Person in-charge of Third Party Information)	Annually

1.3 Supplement to Method of Collecting Third Party Information and Method of Utilization

In Table 2 above, the uses for third party information have been summarized according to the type, source, collection method, the person responsible for the collection and the timing of the collection; however, method of collection will be supplemented and specific methods for usage will be discussed for the principal types of third party information below.

(1) Customs Information from the Customs Agency

Since the customs information contains data on transactions relating to imports and/or exports by corporations and individuals, from the volume and amount of goods transacted by business entities, valuable information for the identification of taxable income can be obtained. In other words, information relating to exports can be used in the identification of sales revenues of products or raw materials while information relating to imports can be used in identifying the procurement costs of products or raw materials. In fact, if all sales or procurements are via exports or imports, by taking the sum of the annual data, the annual sales revenue or cost of goods can be identified but if such data represents only a part of the total annual transactions, the data can be used as an indicator and through tax examinations, total sales or procurement must be probed.

In any case, customs information contains state registry number in the case of corporations and citizen registry number in the case of individuals; therefore, for those

involved in export or import transactions, by referencing the taxpayer registration number kept by GDNT (corporation's state registry number or individual's citizen registry number since each represents taxpayer registration number) it can be determined whether the entity has already filed tax returns for either corporate tax, income tax, or VAT or whether the entity has failed to file tax returns. In the case of the former, by verifying the tax returns that have been submitted to the taxing institution, determination can be made whether the customs information is correctly reflected in the return and if underreporting or other illegal acts are presumed; then, it will be selected as a target for a tax examination. In the case of the latter, it may be presumed that the entity is a non-filer of returns; therefore, confirm the business details and transaction details by documentary verification or by summoning the entity into the tax office and if necessary, perform a tax examination and induce the entity to file proper tax returns. In addition, undertake taxpayer registration and instruct the entity to make proper returns for succeeding years.

In the future, by the rules set down by both GDNT and the Customs Agency, in the case of individuals, presentation of Taxpayer Registration Certificate (Registration Note) issued by the GDNT will be mandatory for customs procedures, facilitating the identification of individuals who are gaining income through export and import transactions and it is expected that this will eliminate the non-filing individuals who correspond to this category.

(2) VAT Invoice

VAT Taxpayers will issue an invoice in triplicate (VAT Invoice) each time a sale of an item subject to VAT is made with the taxpayer retaining the first copy, the second copy being given to the customer and the third copy being submitted to the taxing institution. Transaction counterpart (buyer of the item) who has received the VAT Invoice will submit the original copy to the taxing institution at the time of submission of his own VAT return to substantiate claims made for tax deductions relating to procurements. The taxing institution receiving the copy of the invoice will have an examiner verify the return with the invoice and make a judgment as to the admissibility of the tax deduction or the appropriateness of the refund amount. Vat Invoices that have been submitted records the transaction amount relating to the sales recorded by the taxpayer who

happens to be the preparer and it can also be used as data to make a determination as to the appropriateness of the sales amount relating to the said preparer's corporate tax return.

The aggregate of the VAT Invoices submitted to the taxing institution is a vast volume and in order for this vast data to be of any use in the determination of the propriety of the reported amounts and the necessity for filing returns for the sellers and buyers, the data needs to be compiled into the Third Party Information Database through PC-based processing. In such a case, VAT Invoices submitted to each taxing institution will be collected centrally at the GDNT and GDNT will make a bulk entry into the database.

If, for some reason, database entry cannot be made, each taxing institution will classify the VAT Invoices that have been submitted into those belonging to taxpayers under its own jurisdiction and those belonging to taxpayers under a different jurisdiction and forward those VAT Invoices for taxpayers in other jurisdictions to the appropriate jurisdictional taxing institutions.

(3) Sales Information from Alcohol Manufacturers

Alcohol is used principally as raw material in the manufacture of alcoholic beverages; therefore, the sales information obtained from alcohol manufacturers can be used as basic data in the calculation of taxable income of its customers, namely alcoholic beverage manufacturers. For example, if the total volume of production and production cost can be obtained based on the alcohol procurement volume and amount of each alcoholic beverage manufacturer, it will be possible to compute the sales revenue based on the sales cost ratio by each product.

The allocation of alcohol manufacturing quota by manufacturers are set through discussions among the Ministry of Agriculture and Husbandry, Bureau for the Prevention of Improper Acts and the Ministry of Finance and Economy and the "Alcohol Allocation Report" is sent by the Ministry of Agriculture and Husbandry to GDNT and the Public Prosecutor's Office. In the report, allocation volume to the alcohol manufacturers (comprises of 10companies) and alcoholic beverage manufactures (comprises of 157 companies) allocated by the alcohol manufacturers are included. The actual volume of alcohol sold to the alcoholic beverage manufacturers by the alcohol manufacturers are included in the "Alcohol Sales Report" submitted

monthly to the GDNT. Therefore, with respect to the alcoholic beverage manufacturers, the alcoholic beverage volume manufactured can be estimated and if the sales price can be determined, very accurate sales revenue can be calculated.

(4) Detailed Withholding Tax Return Form TT11 (2) and TT11 (3)

(i)Individuals who under a contract provide business or services to an enterprise and (ii) individuals who supply enterprises with raw materials and the like will be required to have a specified percentage of his or her compensation or consideration withheld by the enterprise. In this case, the enterprise making the withholding will, in the case of (i) file a "Detailed Withholding Tax Return Form TT11(2) and in the case of (ii), a "Detailed Withholding Tax Return TT11 (3) to the taxing institution. The information relating to compensation or consideration contained in the returns is entered into the Third Party Information Database and will be used in the identification of taxable income of the individual receiving the compensation or consideration. For example, if an individual receives compensation from multiple enterprises, from the "Detailed Withholding Tax Return Form TT11 (2)" that are submitted by the enterprises, the Third Party Information Database can be searched for all compensation amounts listed under the same person and by taking the sum of the figures submitted by the enterprises, the individual's taxable income for the year may be accurately calculated.

(5) Information Paper from Third Parties

The tax examiner will prepare the Information Paper from Third Party in the following instances:

(i) If, at the time of tax examination, information that is linked to taxation of counterparts (sales, procurement, expenses) of the taxpayer being examined is uncovered from the accounting records and original records such as invoices and receipts of the taxpayer being examined as well as from results of interviews with the principal and others

(ii) If information is obtained through the mass media including newspapers, television and magazines that can be linked to taxation of a specific taxpayer

(iii) If a tip relating to a fact that can be linked to taxation of a specific taxpayer is

received by a taxing institution

(iv) If any information that can be linked to taxation of any kind is obtained from the erection of billboards, buildings or opening of retail outlets in the city or town.

(v) Other

Information such as those described above are types of information that can be directly linked to identification of tax obligors and taxable income and thus are highly valued as third party (external) information. Particularly, presence of information regarding illicit acts including maintenance of dual books, clandestine transactions or duplicative transactions, and payment of rebates suggests a high probability of incomplete reporting by the transaction counterpart, thus can be considered to be very effective information.

However, information such as those above, tends to be, from its nature, ambiguous and inaccuracies cannot be denied; thus, the examiner utilizing such information must adequately confirm the veracity of the information and based on other additional evidential information supplement the credibility of the said information.

In collecting this type of information, the tax examiner needs to take the necessary steps to keep the information that will be used as taxation data for the counterpart confidential. Also, discretion is a must so as not to cause suspicion on the part of the party being examined. In addition, when using such information in the course of tax examination of the transaction counterpart, it is important that the source of the information be kept confidential. It is imperative that the confidence of the party who cooperated in the tax examination by providing the information be not compromised.

(6) Statutory Receipts

The Statutory Receipt System obligates certain corporations and individuals to use receipts issued GDNT and the rules have already been laid out by the Finance and Economics Minister. However, currently in Mongolia, there are many obstacles including the taxpayers' understanding of the system, budgetary and execution (such as putting the system into effect immediately) constraints. Therefore, with respect to the full-fledged implementation of the Statutory Receipt System, while keeping an eye on the progress being made in the education of the taxpayer regarding the preparation of bookkeeping documentation regarding transactions, recording and storage, the matter

needs to be examined further.

(7) Citizen Registration Information from the Citizen Registration Information Department

The Citizen Registry Information Department issues to all citizens an individual registration number (Citizen Registration Number) and issues to all those 16 years and older an ID Card and it centrally administers all citizens using a unified system of numbers. The GDNT, through the recent Tax Information System, has also adopted a method of administration of all taxpayers by the use of citizen registration number as the taxpayer registration number.

The citizen registration number referred to above is being used not only by the GDNT but is used widely among other administrative agencies and a system is set up so as to enable sharing of necessary information among administrative agencies through the information networks. The ideal taxpayer registration number system that wants to be adopted by the GDNT is one that centrally administers all taxpayers using unique unified numbers and is compatible with the numbering systems adopted by other administrative agencies, enabling quick PC-based processing to build up the information database from the various information obtained from other administrative agencies. If such a system is constructed, the accessibility of information of the taxing institutions will take a dramatic leap.

Information that can be obtained from the Citizen Registration Information Department include the following: Citizen Registration Number (Registry Number), passport number or ID card number, and name and address and by verifying this information with the taxpayer registration number of the taxpayer under its jurisdiction, the jurisdictional propriety of the said taxing institution over the said taxpayer can be confirmed. Further, as the taxpayer registration number matches the taxpayer registration number contained in the Taxpayer Information Database, by searching the taxpayer registration number from the Taxpayer Information Database, the address and the jurisdictional taxing institution can be confirmed. Each taxpayer is required to register any change made on items subject to registration such as change of address and also to make a de novo registration with the jurisdictional taxing institution at the new address. However, even if the taxpayer fails to make such changes, the fact of the

changes can be identified from the information of the Citizen Registration Information Department and this will enable the taxing institutions to instruct the said taxpayer to take steps to register changes. In addition, with respect to those who have relocated into a new jurisdiction, similarly, such information relating to relocation can be obtained from the Citizen Registration Information Department and to those who have failed to take the steps to register their new residency status, steps such as documentary verification, summoning, or on the spot confirmation and other methods must be taken to instruct the taxpayer.

Although penalties are applied to those who fail to register changes in registry items such as change of address, it is not hard to imagine the existence of taxpayers who have changed addresses but have failed to take the necessary steps to register the change. In such a case, whereabouts of a taxpayer under the pre-relocation jurisdictional taxing institution becomes unknown and if the taxpayer derives income in a new jurisdiction, there is a strong likelihood of the occurrence of non-reporting. Therefore, in such case, the pre-relocation jurisdictional taxing institution will interview former neighbors in order to determine some relevant information regarding the destination of his or her move and as for the post-relocation jurisdictional taxing institution, it needs to constantly patrol its jurisdictional area to identify taxpayers who operate without having the proper registrations.

(8) Real Estate Registration Information from the Real Estate Registration Bureau

Registration of real estate is necessary for transactions including sales, purchases, grants and provisions of real estate as collateral and from this information transfer of ownership of real estate or real estate usage can be identified. From this, in a case of a sale/purchase of real estate, the seller at the time of the sale is assessed a “Real Estate Sales Tax (2% of the sales proceeds)” and the buyer/purchaser is assessed on an annual basis a “Real Estate Tax (0.6% of the Assessed Value)” until such time that he or she sells or disposes the real estate. Also in the case of a grant, the grantee will be levied the “Real Estate Tax (0.6% of the Assessed Value)”.

Included in the real estate registration information is the state registration number for corporations or citizen registry number for individuals; thus, by obtaining information

relating to sales or grants through the verification of the taxpayer registration number administered by GDNT, confirmation of proper payment of Real Estate Sales Tax or the Real Estate Tax by the real estate registrant can be made.

Similarly, by clarifying a transaction that caused the provision of collateral, the information regarding the provision of real estate as collateral can determine the existence of transactions that could give rise to taxable income. For example, if the provision of collateral is associated with a loan of funds, for the lender, by clarifying the source of funds and for the borrowers, by clarifying the use of funds, some facts relating to the transaction that links it to taxable income can be identified.

(9) Social Insurance Information from the Social Insurance Bureau

Since the social insurance premium is computed according to the amount of wages being paid by the employer to the employee, the existence of social insurance premium payments is a prima facie evidence of an existence of payment of wages to employees. If payroll exists, naturally this gives rise to withholding of income tax issues, thus information relating to payments of social insurance premium is efficacious information in the conduct of tax examinations.

With respect to the amount of income taxes withheld, as the wage amount can be calculated back from the amount of social insurance premium, the amount of the payment of social insurance premium will enable the determination of the propriety of the income taxes withheld or calculation of the unpaid amounts.

(10) Other Information

With respect to other Information listed in Table 2 above, they can also be said to be useful information in the identification of those obligated to report various taxes and provide materials to determine the propriety of taxable income amounts and taxation amounts in the returns that have already been submitted to the taxing institutions. Therefore, provided that there is cooperation among the various administrative agencies which would be sources of information, GDNT or other taxing institutions can have the person who is responsible for third party information periodically or as needed visit and obtain information in a paper form or on floppy disks. Information thus obtained will be verified with the taxpayer registration number in the Taxpayer Information Database to

determine the jurisdictional taxing institution for each taxpayer and forward the relevant information to the jurisdictional taxing institution. The taxing institution receiving such information should use the information for the identification of those obligated to prepare returns, selection of examination targets and further utilize them in examinations to confirm the propriety of the reported amounts.

The above tasks must be performed manually, if necessary, when PC entry into the information database is not possible and these are basic tasks for data administration for the utilization of third party information in tax examinations.

In other words, it would not be an exaggeration to say that the use of information database is only a form of administrative efficiency made possible by the use of the PC. With the vast amount of data from third parties and the strenuous task of collecting real effective information, it can be said that we have just hit the tip of the iceberg. In the final analysis, the use of the information rests not with the computers but with the examiner's five senses and his or her own legwork.

Chapter 2

The Status and Issues of Taxpayer Administration Using Taxpayer Number

2 The Status and Issues of Taxpayer Administration Using Taxpayer Number

2.1 The Importance of Taxpayer Administration

In realizing just and fair taxation, ensuring that the system to administer taxpayers who are obligated to pay the taxes as provided for in the laws is sound and functioning properly is of the paramount importance in the course of executing the tax policies. As all citizens must bear equal burden of taxation according to their tax-bearing capacity, it is imperative that situations where some are taxed while some are not, although the same incomes are being earned, do not exist. In order to ensure against this and to ensure that the jurisdictional taxing institution as established by the law is clear for all taxpayers, all taxing institutions must have an exhaustive grasp of all taxpayers within their jurisdictions and must see to it that such taxpayers are closely monitored. By ensuring this, the basis for maintaining the true effectiveness of the self-assessed taxation system and comprehensive taxation system will be created.

2.2 The State of Taxpayer Administration in Mongolia

Currently, Mongolia assigns and provides both corporate and individual taxpayers a "taxpayer number" and the basis for taxpayer administration is the use of the taxpayer numbers. The taxpayer number is set up in such a way that a number cannot be duplicated, thus enabling the taxpayer administration to be conducted on a uniform basis. Particularly with the introduction of , a modern tax information system, both taxpayer numbers for the corporate taxpayers and individual taxpayers are registered to the Database of each taxing institution and, at the same time, the same set of numbers are registered on the Taxpayer Information Database of GDNT. Therefore, by using the unique taxpayer number in the search key, information relating to taxpayers located anywhere in the country can be obtained from the Taxpayer Information Database of GDNT.

2.3 Verification of the Taxpayer Number

Taxpayer numbers assigned to corporate taxpayers and individual taxpayers will be closely examined in this section.

(1)Taxpayer Number for the Corporate Taxpayers

A corporation is given its legal status as an incorporated entity when the corporation completes its registration at the "State Registration Office" which is an internal arm of GDNT. In this case, corporations include budgetary institutions, international agencies,

religious organizations, investment houses and financial institutions.

At the State Registration Office, a 13-digit corporate registration number is assigned in the sequence of their registration and at the same time is separately given a 7-digit state registration number, which also serves as the corporate taxpayer number. This 7-digit state registration number has been prepared by the GDNT Information Processing /Automation Department and given in sequence according to the sequence of registration of corporations; therefore, there is no possibility of duplication. Specifically, the GDNT Information Processing /Automation Department prints in advance a certificate on which the register number has been printed on and this is sent to the State Registration Office upon which the State Registration will issue the certificate to corporations that have completed its registration procedures. With respect to branches of corporations, the taxing institutions with jurisdiction over the head office will issue a "Branch Certificate" noting the "Specified Taxpayer Number".

(2)Taxpayer Numbers for Individual Taxpayers

The individual registration numbers given to all citizens at the time of birth are used as the individual taxpayer numbers. This individual registration number is permanent throughout a person's lifetime and when the person reaches the age of 16, an "ID Card" based on the individual registration number is issued and this serves as the citizen's proof of identification.

The number code represents from left to right the province, city town code (2 digit in Cyrillic characters), date of birth (6-digit figures), gender (males are given odd numbers of 1,3,5,7,9 and females are given even numbers of 2,4,6,8,0), and error prevention code (1 digit figure) totaling 10 digits composed of both characters and numerals to ensure prevention of duplicative numbers (for the method of computation of error prevention code and the rationale for the 10- digit individual registration number see (Reference) on page 3 below). For foreign nationals and stateless persons, the taxing institutions with jurisdiction over his/her place of residency will issue a "Specified Taxpayer Number".

(3) Taxpayer Number and the Relationship with Other Administrative Agencies

The state registration number for a corporate taxpayer and the individual registration number for an individual taxpayer described above are being widely used in administrative agencies and private corporations in addition to its use in the GDNT. For example, in the CGA during customs procedures, the inclusion of the corporation's state registration number and the individual's individual registration number is a requirement. In addition, there are constant information exchanges among the Citizen Registration

Information Department, Ministry of Foreign Affairs, banks, police, alien registry office, and border patrols using registration numbers. Further, the registry number is also used in bank accounts and social insurance numbers.

Therefore, it is worth noting that the taxpayer number is not just being used internally within the GDNT to administer taxpayers but is also being used in other administrative agencies and private corporations; thus, if these can be connected via a network, information that may be useful in taxation that are being held by other administrative agencies may be easily obtainable. In conclusion, this type of system should be promoted for the mutual cooperation with other administrative agencies relating to information exchange (currently limited only to receiving information from some agencies such as the CGA and alcohol manufacturing enterprises).

(Reference) Computation Method for the Error Prevention Code in the Individual Registry Number

Example below is a guide used by the State Registration Office for the accurate assignment of individual registration numbers extracted from the manual entitled "Information Regarding Individual Registration Number" addressed to the registration number registration officials.

Example: A male born in Phobudo Province, Chandhama County on December 4, 1976.

→Registry Number will be PH-761204-10 where

P - Phobudo Province, H – Chandhaman County (reserve number is 10)

76 – Date of birth (last 2 digits of birth year), 12 – birth month, 04 – birth date

1 – Male, 0 – Error prevention code

5	6	7	8	9	8	7	→weight (fixed number)
x	x	x	x	x	x	x	
7	6	1	2	0	4	1	→Date of birth and gender
↓	↓	↓	↓	↓	↓	↓	

35 + 36 + 7 + 16 + 0 + 32 + 7 = 133

Divide the sum 133 by 11. 133 ÷ 11 = 12 …Remainder 1

Add 10, the province and som reserve code to the remainder to produce 11. If the result of the addition exceeds 10, subtract 11 which produces 0 and this becomes the Error Prevention Code.

If the sum of the remainder and province and Som reserve code results in 10, then 1 + 0 = 1 becomes the Error Prevention Code

Therefore, according to this formula, the Error Prevention Code will be the same

regardless of who performs the computations, thus if a different number results, there is an error in the date of birth or the gender classification and thus can be used in the checking of the accuracy of the numbers.

However, if in the same district and on the same day 5 or more males or 5 or more females are born, duplication of numbers occurs and in such a case, by changing the second alphabet of the province, city, and district, code duplication can be avoided. For example, there are on average 22 soms in a province and each is given an alphabetical code. Since there are 13 characters that are unused (35 – 22 = 13), it will be selected from these. As a result, a maximum of 65 persons (13 x 5 = 65) can be given numbers and in total 70 persons, each of males or females (5 + 65 = 70) is possible. Today, considering the birth rate in Mongolia (in the 9 districts in Ulaanbaatar 12,000 births per year; 3 – 4 per district per day), there is no need to be concerned about the numbers being duplicated in the citizen registration numbers for the time being and GDNT also shares this opinion.

2.4 Registration of Taxpayers and Taxpayer Number

A taxpayer number is assigned when the taxpayer completes registration with the taxing institution. Below, the taxpayer registration procedures are summarized based upon the "Rules Regarding Taxpayer Registration" (GDNT Director Directive 119 dated June 29, 2001).

(1) Items to be Noted Regarding Taxpayer Numbers

A . Taxpayer Number must be issued without duplication

B. If a taxpayer deals with one or more taxing institutions, the same taxpayer number shall be used

C. A taxpayer shall enter the taxpayer number in all account/company books and returns submitted to the taxing institution

D. A taxpayer shall always enter his or her own taxpayer number in all original records relating to cash receipts and disbursements vis-a-vis other enterprises, institutions or individuals and must require the transaction counterpart to enter his or her taxpayer number on the said original record to be submitted

(2) Registration Period for the Taxpayer

A. Individuals, enterprises, institutions, withholding obligors, and non-residents such as foreigners deriving income within Mongolia must register as taxpayers within 10 days of commencement of business at a taxing institution.

B. Individuals, enterprises and institutions owning taxable property other than taxable

income must register as taxpayers within 1 month of the date of possession of said property with a taxing institution.

C. Should any change in any registry item occur, a taxpayer must make the appropriate changes in the taxpayer registration within 1 month of the date of occurrence..

(3) Jurisdictional Taxing Institution for Registration of the Taxpayer

A. In the Case of a Corporation

(A)Domestic corporations and foreign capital enterprise with total capitalization exceeding 500 million Tg. and corporations whose business extend to prefecture, capital and the regions and who have established branches and agencies in the said region.

→Central Budgetary Revenue Administration Office of GDNT(former Large Scale Taxpayer Office)

(B)Domestic corporations and foreign capital enterprises with total capitalization exceeding 100 million TG. and corporations whose business is carried on in all parts of the capital and who have established branches and agencies in each district.

→Capital National Taxing Institution

(C) Corporations other than (A) and (B)

→Tax Offices in provinces /districts

(i)If the entity maintains a premise where the core business activities are conducted including employees performing job tasks

…Taxing institution with jurisdiction over the area where the business premise is located

(ii) If there are no facilities owned by the corporation and the corporation is a tenant or business is being transacted from the proprietor's residence

…Taxing institution with jurisdiction over the area where the proprietor's residence is located

(iii)In the case of foreign institutions

… Taxing institution with jurisdiction over the area where the institution is located

B. In the Case of Self-Employed Individuals

… Taxing institution with jurisdiction over the area where the individual's residence is located

C. In the Case of Patent Operators

… Taxing institution with jurisdiction over the area where the business is being conducted

D. Mongolian Residents

… Taxing institution with jurisdiction over the area where the residence is located

E. In the Case of Individuals Owning only Taxable Property other than Taxable Income

… Taxing institution with jurisdiction over the area where the said taxable property is located

F. In the Case of Corporations with Taxable Property other than Taxable Income and Located in an Area other than Where the Corporation Conducts Business

… Taxing institution with jurisdiction over the area where the said taxable property is located

(4) Changes and Deletion of Taxpayer Registration

When a change has occurred in a registration item, just as in the case of de novo registration, there are two options: (i) the taxpayer autonomously undertakes the registration procedures or (ii) the taxpayer undertakes the registration procedures as a result of a tax examination. In the case of registration being deleted due to "bankruptcy", "dissolution (business cessation)" or "relocation", deletion can only be performed after the existence of tax obligations have been confirmed and all outstanding tax obligations, if any, have been satisfied.

(5) Relocation of the Taxpayer

A. The Provincial /Capital National Tax Bureau and District Tax Office, in accordance with the rules, collect and sort data relating to taxpayers who have relocated its place of business or residence and submit the same information to the taxing institution with jurisdiction over the area to which the taxpayer has relocated its place of business or residence.

(Note) This information transfer (from one jurisdiction to the other) procedure has been established for the handover of taxpayers and various data regarding taxpayers. Although there is no specific requirement as for the timing of the handover, such handover should be executed expeditiously when a request for registration of the relocation has been received.

B. In accordance with the directive of the Director of the GDNT, based on the principle provided for in the rule, notification of movements by taxpayers between jurisdictional taxing institutions must be made once a year prior to the budget revision and annual planning.

(Note) This procedure, according to the Director of the GDNT directive, is intended to provide information to all the taxing institutions relating to the movements of the taxpayers..

C. Based on the information relating to the movement, the taxing institution is

responsible for the addition or deletion of the taxpayer registration whichever the case may be.

(Note) This procedure provides that regardless of receipt of request from the taxpayer, if information regarding taxpayer movement becomes known by the taxing institution, registration procedure must be undertaken expeditiously.

(6) Input of Registration Items into the Information Bank

Taxpayer "de novo registration", "registration of changes" and "deletion of registration" described above are entered each time into the Taxpayer Information Bank at each taxing institution and all taxpayers are centrally administered by the GDNT. In the case of "de novo registration", the state registration official or the examiner-in-charge will prepare the input format and a specialist will make the entry into the Information Bank at the State Registration Office in the case of corporations and at the jurisdictional taxing institution in the case of individuals. At this time, a "taxpayer file" will be opened and administered by the Manager of Collection or the Personal Income Tax Manager at each taxing institution. Closing of the files due to "deletion of registration" will follow similar procedures. In addition, with respect to "registration of changes", a weekly review of file contents is made between the Information Banks at the State Registration Office and Capital National Tax Bureau and district tax offices.

2.5 Issues Relating to the Identification of Non-Filer of Returns and the Measures

The most important point in taxpayer administration is the identification of all tax obligors residing within each tax institution's jurisdictional area (i.e. no non-filers exist). Situations where the existence of non-filers is facilitated include (i) when a taxpayer newly opens up a business, and (ii) when a taxpayer has relocated between one taxing institution's jurisdictional area to another. If the taxpayer complies with the procedures for de novo registration or registration for changes (both inbound and outbound relocations), there would be no issues arising; however, there is no guarantee that such would be the case. If there is non-compliance, the taxing institution must obtain information regarding the citizen's relocation from the State Registration Office to confirm inbound and outbound relocations and ensure that registrations at both ends are completed. If a taxpayer, without any application or notification, establishes a place of business or residence within the jurisdictional area of a taxing institution or changes its location to another taxing institution's jurisdictional area, the information referred to above cannot be relied upon. In these types of cases, the staff of taxing institutions must

patrol the area within the jurisdiction and endeavor to uncover newly established businesses and, at the same time, with respect to taxpayers who have relocated to another taxing institution's jurisdiction, visit the former place of residence or place of business to interview neighbors to obtain information as to where such taxpayer has relocated to.

In the case of corporations, since the introduction of the requirement for registration of the names, addresses, occupations and contact addresses of families and persons related to the applicant to facilitate tracking at the State Registration Office, the cases of unknown corporate locations have declined dramatically. Also, at the time of de novo registration, the State Registration Office and the jurisdictional taxing institution work closely together and with respect to businesses that have de facto corporate status but which have not registered, each taxing institution will probe every building located within its jurisdictional area and encourage the entity to register. In addition, in 1995 and 1999, all corporations without reason for existence had been eliminated through the process of re-registration, thus enhancing the reliability of the current corporate registration system.

With respect to individual taxpayers, effective September 1, 2002, the "Individual Taxpayer Registration Certificate System" has been implemented. Under this system, individuals who are engaged in export or import transactions must file an application for "Individual Taxpayer Registration Certificate" issued by GDNT (although the actual issuance will be by the jurisdictional taxing institution) and must attach the certificate to the export and import application submitted to the CGA. This system is a deterrent against individual non-filers engaged in export or import transactions. The certificate contains information such as taxpayer number and a 13-digit certificate number. Each taxing institution issues a unique set of numbers that are controlled, such that no duplicating numbers are issued by any taxing institution, by registration form code (2-digits), taxing institution code (2-digits), date of birth code (6-digits), and a same day code for the date of receipt of application (3-digits).

In any case, fairness in taxation rests in all taxpayers to bear the tax burden according to his or her level of income, thus no tax obligor should be allowed to escape the payment of taxes. Tax officials need to be cognizant of his or her responsibilities in this regard. As a step to eliminate non-filers, taxpayer education programs (e.g. training sessions regarding tax filing, individual counseling /advice on tax filings, etc…) must be conducted in conjunction with the utilization of fliers, billboards, and mass media to raise public awareness.

Chapter 3

Third party Information Database System

3. Third Party Information Database System

3.1 The Electronic Processing of the Taxpayer Information Files and the Outline of the Third Party Information Database

3.1.1 The Purpose for the Support of the Electronic Processing of the Taxpayer Information Files

The main purpose of this project is to achieve equity in taxation through the electronic processing of the taxpayer information files. This paper will outline the process in detail.

(1) Check for the propriety of the tax return by comparing it with taxation business data

One of the benefits of using a computerized system is it empowers the tax authorities to be able to compare data. In tax examinations, it is expected that the examiners discover any contradictions in the reporting by comparing the tax information with the existent information of the taxpayer or by comparing between data. Moreover, it can be pointed out that there is an underlying effect on the taxpayers knowing that data reported to tax authorities can be scrutinized. Improvement in the propriety of the tax return is expected with these effects.

(2) Improvement in the efficiency of the examination by using comprehensive examination information

Through the electronic processing of examination information, the information share between examiners can be aimed at by using the system. Moreover, by electronically processing the examination documents, the examination data preparation process can be advanced. It is also expected that the Mongolian tax authorities proceed with electronic processing of examination papers so as to manage more easily with the checking of the history of data use and reliability of data.

(3) Support for planning of a taxation policy

The tax authorities can grasp the tax payment situation and the taxation situation statistically by processing each taxation record electronically. Moreover, by analyzing the statistical data, it helps the tax authorities grasp tendencies and examine problems in taxation. Furthermore, it also becomes possible to consider the statistical data as the basis of the tax revenue plans. Thus, through the electronic processing and the

statistical reports drawn from the electronic processing, it can be expected that the Mongolian tax authorities will be able to plan appropriate taxation policy.

3.1.2 Circumstances Surrounding the Construction of the Taxpayer Database

(1) Electronic processing of taxpayer information

As tax revenue enhancement is one of the objectives of electronic processing, data-zing a taxpayer information should be mentioned in the first place. With this tactic, it is expected that the Mongolian tax authorities can grasp the tax payment and delinquency situations quickly, thus be able to make decisions on tax policy based on the statistical information.

At first, we had planned to help process tax return information electronically in this project; however, in 2001, the GDNT developed the related system which was made possible through the support of the ADB. Commencement of operations was started from fiscal year 2002. Finally, in conjunction with this system, our study team provided technical assistance at the last phase of this project.

(2) Electronic processing of customs clearance information

Although customs clearance information has been processed electronically in the CGA since before, the GDNT has had few opportunities to utilize it for tax collection. However, with the new system corresponding to the network being in placed by fiscal year 2002 at the CGA, customs clearance information will be more accessible. In this project, we supported to build the database system designed to download customs clearance information periodically from the new system of the CGA.

(3) Electronic processing of third party information

In the tax examination, not only information based on the taxpayer return is utilized, but also the information about his economic activities offered by the third party is required because the examiners need proof. By processing electronically such information and utilizing it efficiently in tax examinations and etc, it is expected that unjust returns are discovered effectually and tax revenue enhancement is achieved efficiently.

As support for the electronic processing of this project, construction of the Third Party Information Database was set as the main objective.

3.1.3 The Outline of the Third Party Information Database

Fig. 3-1 shows the outline of the Third Party Information Database. Most of the third party information was paper-based. In this project, we decided to process electronically only a part of the information and set them for network use. The rest of the information were gathered, used and managed via the paper medium as usual, and we considered that these will also convert to electronic processing in the future. In addition, regarding VAT invoices and withholding returns, although it has corresponded to the system, the information on these papers will remain paper-based for the time being.

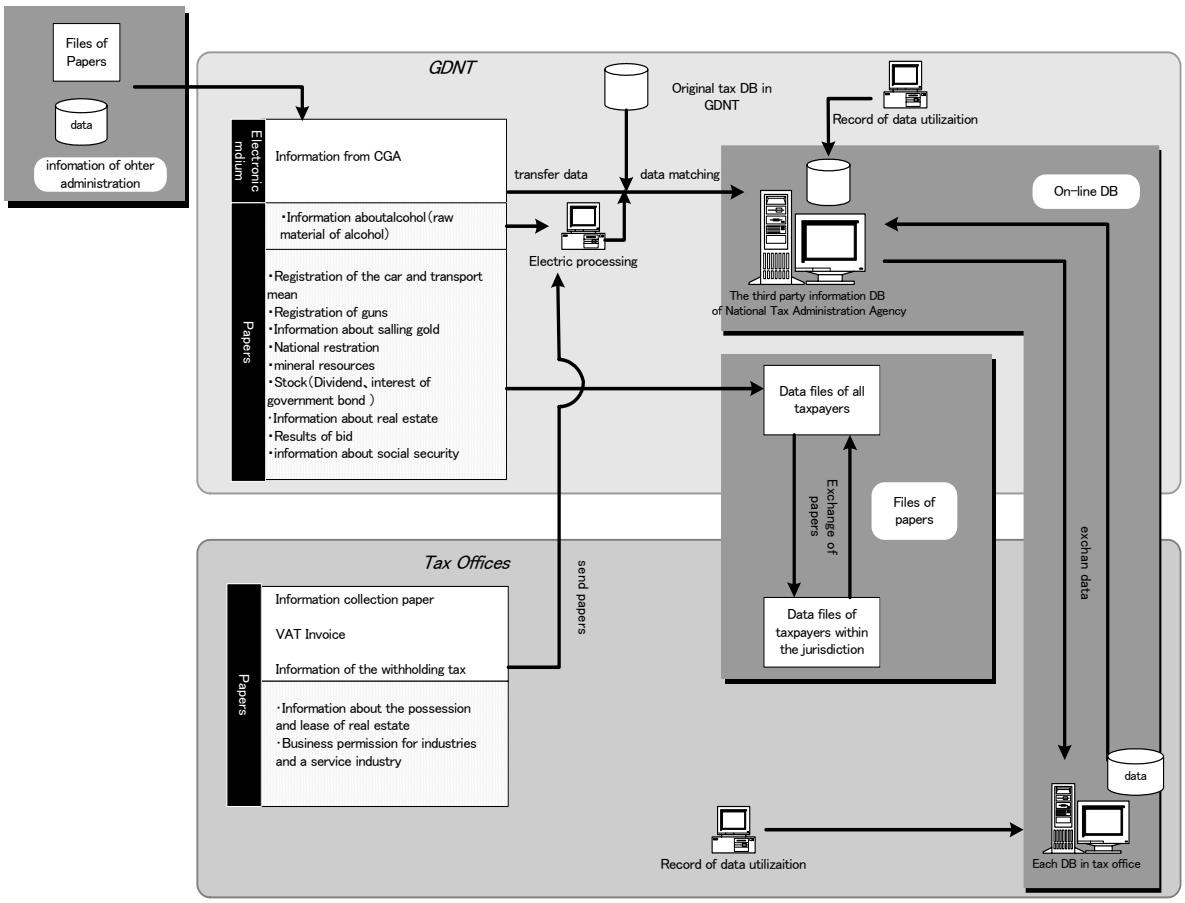

Fig. 3-1 Image of the Third Party Information Database

(1) Construction of the Third Party Information Database

The aim of this project is to construct the Third Party Information Database which can then be used to provide data for tax examinations. The examiners can compare information processed electronically with other types of information so that the examiners can perform examinations in a more efficient and effective manner.

(2) Construction of a client-server type system

We assumed that a client-server type system will be utilized. It is expected that the user can make use of the information according to his needs. Moreover, it also becomes possible to offer information from the client side to the server including information on the history of the utilization.

As mentioned in more details later, we decided to introduce Oracle 8 and 9 produced by Oracle Co, Ltd. of the United States as the database management system because of its wide-range capabilities, i.e. this system has enough specifications so as to be able to assume volume extensions or expansion of data types. In addition, it can handle new application programs.

(3) Sharing information between the remote hosts with the WAN

In this system, all information is processed centrally at the GDNT so that the Mongolian tax authorities can collectively input the data. This information can be shared between the GDNT and each tax office through WAN. Since the information shared is coursed through a network, update of information can be performed at the same time among remote areas.

(4) Grasp of the history of utilization of information and security management

The system records the history of the utilization of the information, thereby giving the Mongolian tax authorities the opportunity to monitor the use of information by each examiner. Abuse of the information can be discovered quickly.

3.1.4 The Outline of the Taxpayer Information System

(1) The outline of the taxpayer information system

GDNT developed the system with the aim of consolidating the different types of taxpayer information including tax payments used in the national tax. This system is for the database of the taxpayer basic registration information and tax return information. Therefore, the Mongolian tax authorities can manage the taxpayer information with more efficiency as well as use it for tax examinations and etc…

１)The area for the utilization of the taxpayer information system

The purpose of the system is to register the taxpayer information and the tax return information. Based on these different types of information, taxation statistics can be

derived. The system can be used from the following locations: the GDNT, the taxation office in Ulaanbaatar, and each AIMAG.

2) Basic composition of the taxpayer information system

The hardware of this system is designed as the client-server type. It links the network for data exchange among the GDNT, the tax office in Ulaanbaatar, and each AIMAG, with the E-mail and the data import functions. The database management system is the SQL type based on the Oracle8 platform.

All types of application programs such as registration of taxpayer, processing of tax return, and processing for tax examination was prepared.

In this system, the main key for data management is the Citizen Registration Number to the individual and the Corporation Registration Number to the corporation. The Citizen Registration Number is issued to all Mongolians at the Citizen Registration Information Department at the time of birth. As to the Corporation Registration Number, they are issued at the time of incorporation when they are obliged to notify the tax office of their intent to incorporate.

3) The team for the development and the management of the taxpayer information system

The team responsible for the development of the system was organized with the internal staff of the GDNT. It was composed of about a maximum of five persons and they developed the system for three months beginning August, 2001. The supposed operator of this system had been trained for three weeks in the GDNT.

(2) The outline of the information system of CGA

1) The aim and the background of the information system of CGA

The hitherto system (Asycuda) has had some troubles in terms of operation and maintenance, thus requiring high maintenance costs. Therefore, it was decided that a new system was needed and a domestic vendor in Mongolia was commissioned to develop it. The assumed objectives for developing it are set forth below:

- Automation of the clearance process
- Statistics processing
- Construction of the Database for each tax item
- Analyzing information

For attainment of such aims, the system was designed as the client-server system that

is efficient and can easily make a network. The system is assumed to connect all customhouses including the border area with a network.

The development of the new system and the operating test was carried out from August 2001 to December 2002. System conversion will be made in fiscal year 2003.

2) The area for the utilization of the customs clearance information system

The new system of the CGA is supposed to be used mainly by three types of users. The first type is the user in the CGA and all customhouses, and they use it as an internal network. The second type is the user outside of CGA, and they use the application or database as a web application with the Internet. For example, it is assumed that the broker makes use of the system to input the customs information. Finally, the third type is the general Internet user, to offer certain information.

The broker uses this system by connecting to each customhouse office. Prior to the introduction of this new system, he/she could bring in the declaration only during the operating hours of the bureau of the customhouse, but now he/she can submit anytime since the introduction of the new system1.

3) Basic composition of customs clearance information system (hardware and software composition)

The new system of the customs clearance is a client-server type. They adopted Microsoft Windows 2000 as the OS on the server. It is connected between CGA and four customhouses (two in Ulaanbaatar (the railroad station and the airport) and two in China and the Russia border area) and the customhouse offices in Ulaanbaatar via the network.

The system uses the SQL 7.0 of Microsoft as the DBMS. The applications are based on this and were developed in-house.

As the network for this system, the CGA uses the optical fiber network in Ulaanbaatar and the satellite circuit for communication with a border area2.

3.1.5 The Scheme of System Development in this Project

We mention the scheme of the development of the system in the project. The primary goal is to develop the third party information system.

(1) Whole scheme of development and the participants' roles

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[1] The procedure of the declaration is performed in the operating time

[2] A public telephone network is used between the airport custom and CGA.

1) JICA Study Team

The roles of JICA Study Team on the system development are set forth below:

・Technical support for the development of a third party information system.

・Expense support for the development of the system.

About the former, we surveyed the situation of electronic processing in the GDNT and consulted about the directivity of the third party information system, the project management technique, the management development schedule, making system specifications and system designs, and arrangement of various documents.

About the latter, financial support was offered for the expense of the hardware and software of the third party information system and the necessary outsourcing expense associated with the system.

2) GDNT

The roles of the GDNT in this project are shown below:

・Project management in the construction of Third Party Information Database (including outsourcing management) .

・Project management of the information exchange system between the CGA and the GDNT.

・Design of the database and development of the programs.

・Maintenance of the data.

・User training.

・Arrangement of all documents.

Project management is carried out for the whole development process including the practical work and management of the outsourcing portion.

About the development of programs, they are to be mostly designed in-house, with members of the GDNT staff programming especially the programs required for security. On the maintenance of the data, they convert paper-based information, as mentioned below, into the electronic medium.

In addition, user training was provided and documents arranged in the GDNT after the system development was completed.

3) Others

In the development process of this system, two parts were outsourced. The first part was for the support of the development of the third party information system, mainly programming and setting the server. The second part was for the support of the

information exchange system between the CGA and the GDNT, mainly programming of the system.

①Development scheme in a third party information system

Concerning the development scheme in the third party information system, the members of the GDNT developed and programmed the system as mentioned above. TTT CO, Ltd., a software development vendor in Mongolia managed and programmed some parts of the development portion.

②Development scheme of the exchange system of taxpayer information

As for development scheme of the exchange system of taxpayer information, the GDNT staff handled the project management, the design, and programming of the data import portion into the system of the GDNT. The rest, such as file transfer program (ftp) from the CGA to the GDNT, was programmed by Ecm Co, Ltd., which is a software developer in Mongolia.

3.2 Functions and Composition of Third Party Information System

It arranges the functions and composition of a third party information system.

3.2.1 The Functions of a Third Party Information Database

It arranges the functions of a third party information system on the following aspects: the types of functions, the contents of information, the report about the utilization of information, the reference key and the area of utilization.

(1) Summary of functions

1) Comparing taxpayer information

In this database, the tax examiners can compare the collected taxpayer information, which information is held by the third party and which information is managed by the GDNT through the system. Therefore, information is bound to each taxpayer exactly and efficiently, thus it is possible for the GDNT to grasp exactly the tax payment information of each taxpayer.

2) Data retrieval function

In this database, it is possible to search the stored taxpayer information held by the third party, depending on the item. As a case in point, they can set the range of each

taxpayer economic activity that will be used as the basis for taxation and find out certain information about the target taxpayer by retrieving information from the DB.

3) Data report function

With this system, the tax authorities can create reports that can aid them in areas such as tax examinations and tax policies. The report offers statistical information that can make them monitor the economic activity of each taxpayer or each good.

4) Date exchange function

This system has the function that can download electronic data from the outside and transfer the stored data. To be more specific, with this type of system, the tax authorities can download electronic data from the CGA and the tax offices and upload the data that each tax office should manage to administer the taxpayers within their jurisdiction.

5) Data utilization management function

The tax authorities can manage the history of utilization of this database so that they can monitor the situation of utilization of each data.

6) Security function

This database has the function that manages the system login, which is separate from the OS, each time the DB is accessed. It also records the utilization of the data in detail as well as the history of copying data. In every system, a back-up is made so as to be prepared for any system trouble.

(2) Types of information

Table.3-2 shows the types of information that can be stored in the third party information system that was developed for this project. However, due to the restrictions with data collection, VAT invoices and withholding-related data will be stored in the database at a later date when the environment of data collection and input is ready.

Types of Information	Contents	Electronic Processing Available
Tariff Report Information	Information declared to the customhouse by exporters and importers or information on the customs duty. The information is pc-based.	○
Collection Paper	Taxpayer information collected by examiners from the local tax offices. This information submitted to the GDNT is paper-based.	○
Alcohol Relation Information	In alcohol related information, the information about manufacturers and alcohol distributors are included. All information is paper-based from the Ministry of Agriculture and Husbandry.	○
VAT Invoice	The receipt issued and the VAT amount received is recorded. This is paper-based.	×
Withholding Information	This form shows the amount of withholding tax such as payroll withholding tax or tax about intermediary. This is sent to the tax office and will be presented to the GDNT. Information is paper-based.	×

Table 3-2: The Contents of Information Stored in a Third Party Information System

(3) Outline of retrieving information

The tax authorities can set the condition by entering the item that they want to retrieve in any field of the DB. After the DB makes a search, a target record that matches the conditions set forth is displayed by the DB. For example, the taxpayer identification number can be used as a key if they need information about a certain taxpayer. Another example would be if they want to retrieve information from the DB with a set of conditions (i.e., exports of more than one hundred thousand dollars), they should enter one or more items in the fields of the table as the condition to get the information they need.

(4) Information reference key

1) Information identification code

As the information identification code, the tax authorities issued a document identification number for each record. The beginning two digits of that number indicate the information type and the following eleven digits are issued based on sequential order. The data is managed through this number.

2) Taxpayer identification code

The Taxpayer Identification Number (Citizen Registration Number, Corporation Registration Number) and Personal Note Number are stored as the Taxpayer Identification Number in this system. This code is used as binding information with each taxpayer. Soon, the personal note number system will be introduced, thus the taxpayer identification number will be mainly used as the matching key.

(5) The limitation on the information utilization

1) Permitted term to use information

Each record will be stored for a period of 7 years after which it will be deleted from the DB. In essence, there is a limitation in the usage of the DB.

2) Permitted information at the GDNT and tax office

There is no restriction to the use of any information stored in the DB at the GDNT. At each tax office, the tax authorities can use the information of taxpayers as long as it is within their jurisdiction.

3.2.2 The Composition of the Third Party Information System

The outline below shows the composition of this system.

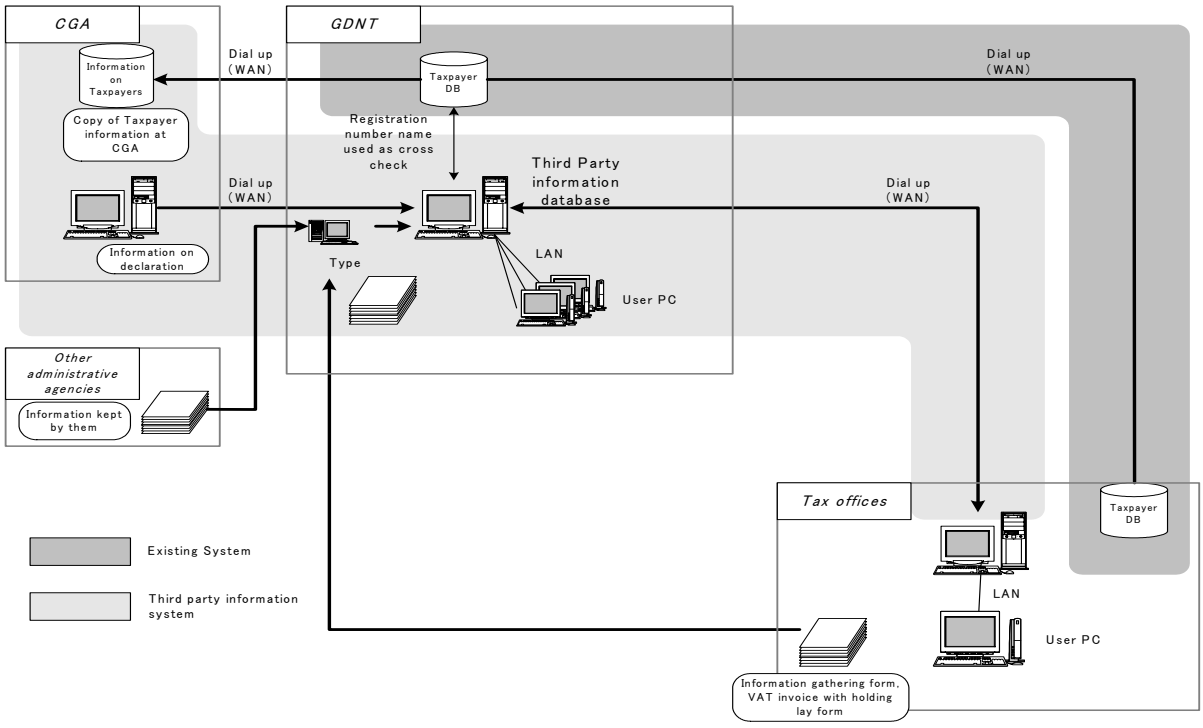


Fig. 3-3 The Composition of the Function in this Database System

(1) Outline of the circumstance in utilization

1) Facility

Each facility of the GDNT and the tax offices uses this system. The main server is located in the GDNT facility and the local servers are set in each tax office. The server in the CGA facility offers the customs information.

2) Machine room

The type of equipment in each facility is as follows:

GDNT： Server PC (machine room),Client PC (office room)

Tax office：Server PC, Client PC (office room)

CGA：Server PC (machine room)

(2) The hardware composition

1) Network

The type of network configuration is set forth in Table 3.4:

Table 3-4. The composition of the network of this system

Area for network use	Type of network
In GDNT facility	LAN
In tax office facility	LAN
Between GDNT-CGA	WAN（dial-up with telephone line）
Between GDNT-tax office	WAN（dial-up with telephone line）

2) Server

The servers in each facility are set as follows: the server in GDNT stores all of the data and program that are used in the system; the server in each tax office stores the third party information that are used for audit purposes and also stores the system program used in that office; the server in CGA stores the customs information used to transfer between the custom clearance system in CGA and the GDNT systems and the application program that transfers information from CGA.

3) Client PC

GDNT is equipped with two kinds of client PC: one for data input and the other for examination. The tax office is equipped with the client PC used for examination.

(3) The software composition

1) Operating system

Microsoft Windows 2000 server runs on each server. They also use Microsoft Windows 98 as the operating system on their client machines.

2) Database management system（DBMS）

Oracle 9.1 is the DBMS. Application programs were developed with Oracle SDK for the control of the database.

The data transfers from CGA to GDNT, GDNT and tax offices are via ftp application. Anti-computer virus program has been installed in the system to protect from virus infection.

3) The tables of the third party information system

The database of the third party information system is composed of three kinds of tables: taxpayer information tables, the third party information tables, and record management tables.

3.3 Maintenance and Operation of the Third Party Information System

3.3.1 The Maintenance of the Third Party Information System

(1) The outline of the maintenance of the server for this database system

The GDNT staff maintains the database system. The data is first maintained at the GDNT after which the data is transferred to the officer-in-charge of each tax office so that integrative maintenance of the information can be made.

Data backup and data recovery are done at the GDNT.

(2) System operation

Regarding the server for this database, the tax authorities operate the main server in the GDNT and the officer-in-charge of this system in each tax office operates the server in the tax office.

The server administrator administrates the user accounts necessary for the operation of this system.

(3) Data maintenance

1) Administration of the user account for the DB

A member of the GDNT staff administrates the user account for this database. There two kinds of user accounts: the administrator and the operator. Each account is registered at the GDNT.

2) Data input

As for the data that is used on this system, the operator inputs the paper-based information such as the alcohol-related information and the collection paper (VAT invoice and the withholding tax information in the future) at the GDNT. They set the terminal for data entry at the GDNT and the operator inputs the data.

3) Data updating and delete

All data updates and deletions are performed at the GDNT. Purging the system to remove the data stored for more than 7 years in the database is performed by the administrator at the GDNT who is responsible for this task.

(4) Data matching

Whenever data maintenance is conducted, the taxpayer registration information and the third party information are matched.

In the first case, the taxpayer registration information is matched with the data inputted or imported from the external system. After data has been matched using the Taxpayer Identification Number as the matching key, the data is stored into the database (Fig. 3-5). This operation is performed at the GDNT.

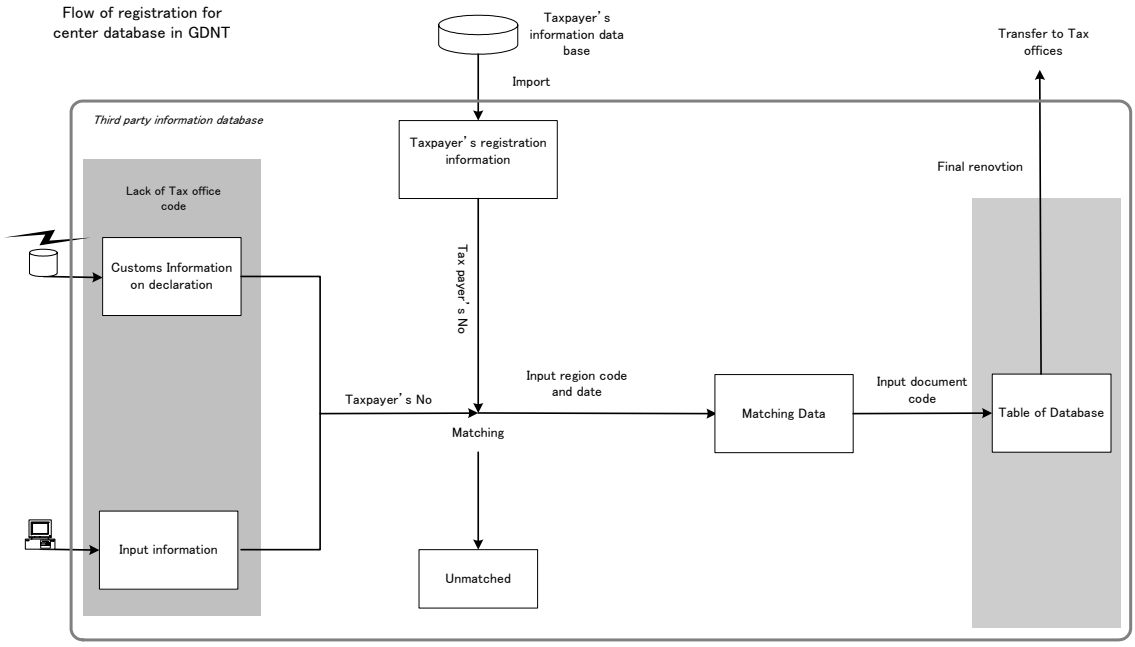


Fig.3-5 The Image of the Matching Flow at the Data Input

Whenever a taxpayer relocates to another jurisdiction a data match needs to be performed by the administrator of the GDNT to check the jurisdictional change.

(5) Data backup and recovery of the system

Data backup is periodically performed at the GDNT. If the data or the system in the server is broken, the GDNT performs all data recovery.

(6) Data exchange

1) GDNT-tax office

Data is transferred from the GDNT to each tax office when a new record is stored in the database including data updates or if a taxpayer moves into an area administered by another tax office.

The history of the utilization of each examiner is recorded in the server and sent to the GDNT periodically.

The tax authorities exchange the data with the folder that is created in the main server at the GDNT. Each folder is used for each tax office.

2) GDNT-CGA

The customs declaration information is uploaded from CGA to GDNT and stored into

the database of the GDNT. A folder is created on the server of GDNT and a CGA staff stores the customs information into this folder. A GDNT staff then matches this data with the taxpayer information and stores the information in the database of GDNT.
When the CGA staff transfers the data, he logs in into the system of the GDNT. The file format of the exchange data is the one for Microsoft Access.

3.3.2 Summary of the Operation for the Third Party Database

(1) Outline of the operational menu

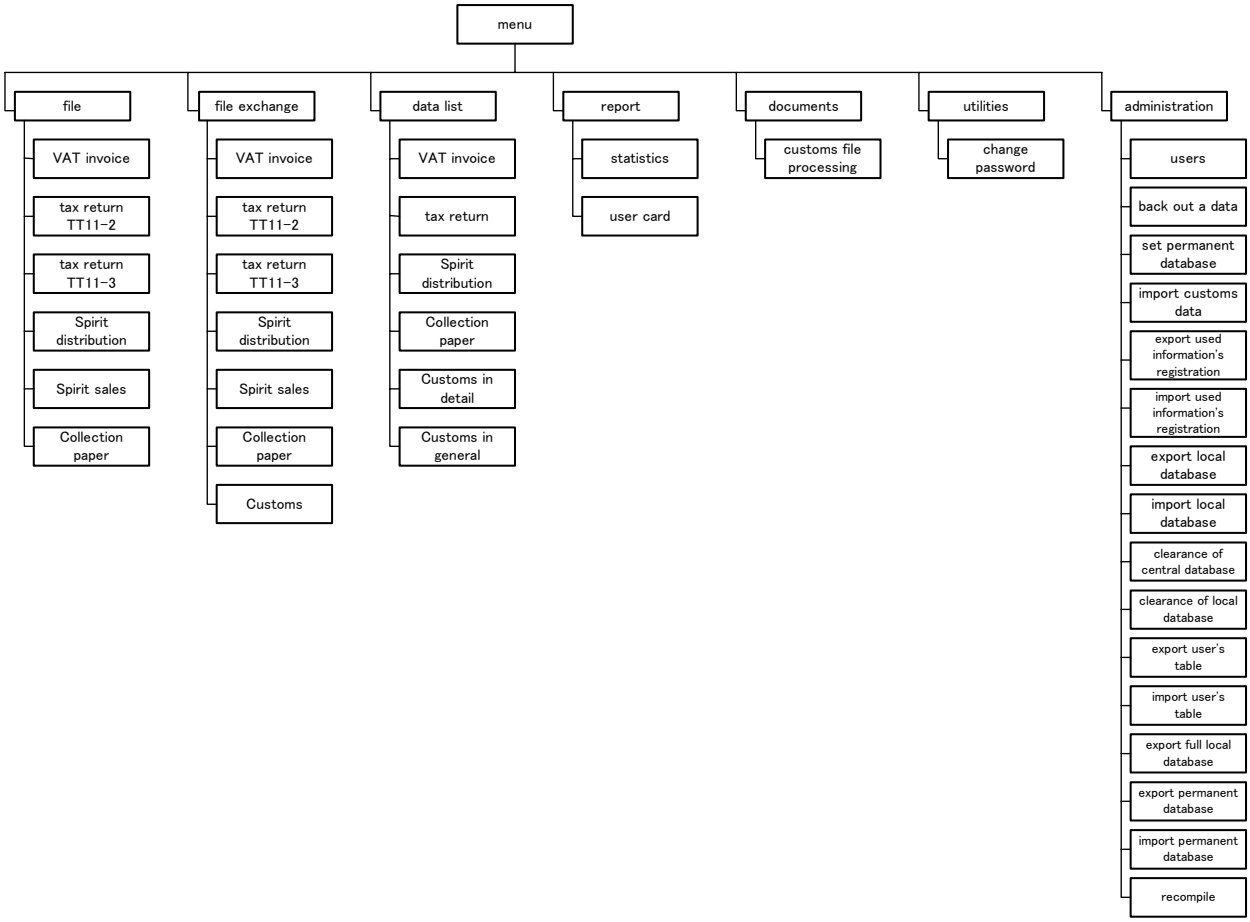


Fig.3-6 Outline of the Menu of this System

This system has the following functions:

- data input（File）
- data update (File change)
- data view/retrieve (Data list)
- report(Reports)
- administration menu

1) Data input

Paper-based information is entered into the database at the GDNT. The following types of information are inputted: data related to alcohol manufacturers and distributors, information collection paper, VAT invoices and withholding tax information (emolument and expenditure of material).3

2) Data change

This menu is used for updating data. All of the information contained in the DB will be subject to this process.

3) Data view / retrieving

This menu was prepared to display each record and to retrieve certain records according to some set conditions. Fig.3-7 shows the display image of this work with the customs data. With this function, the records in the DB are displayed and certain records with the taxpayer identification number are retrieved. For example, a particular taxpayer identification number is entered into the blank field for the TIN after which the DB can draw all of the records matching this number. The system then displays the records. This retrieving function enables the tax authorities to set any field data of the table as the criteria key according to their purpose.

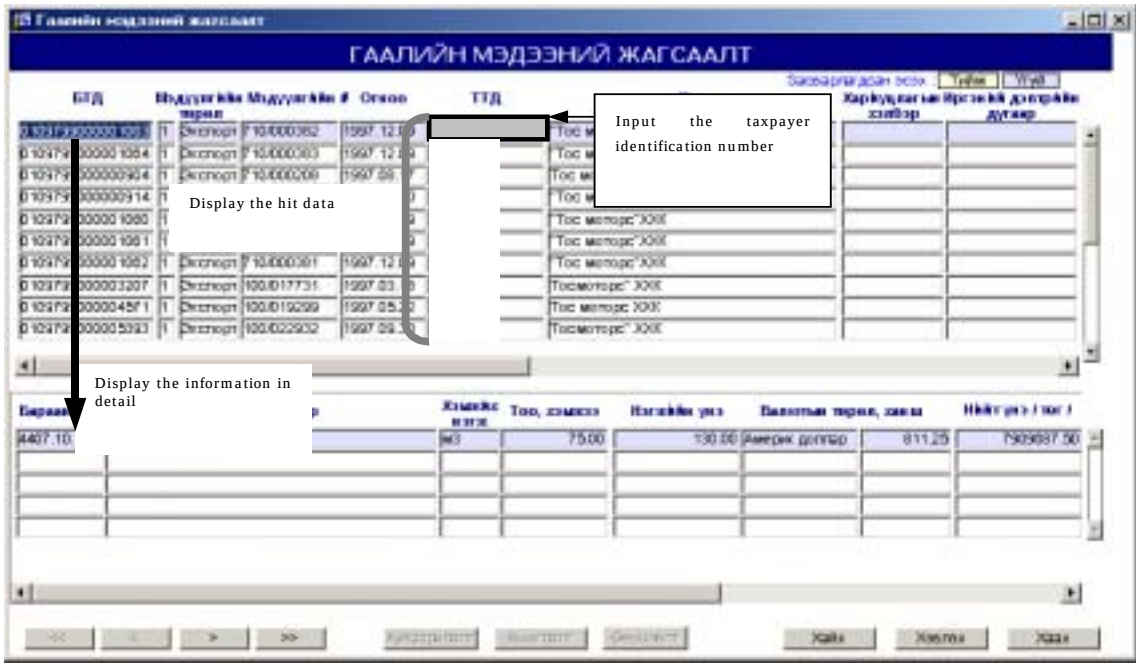


Fig. 3-7 The Display Image of this Work with Custom Data

[3] Information about VAT invoices and withholding tax information are not contained in the DB at the beginning of the operation of this system. The schedule for those types of information to be contained will be determined at a

Fig 3-8 shows the image of the printout of records. When printing records, the following information needs to be entered: the examiner's name, the examiner's code, the examiner's tax office name, and its respective code.4

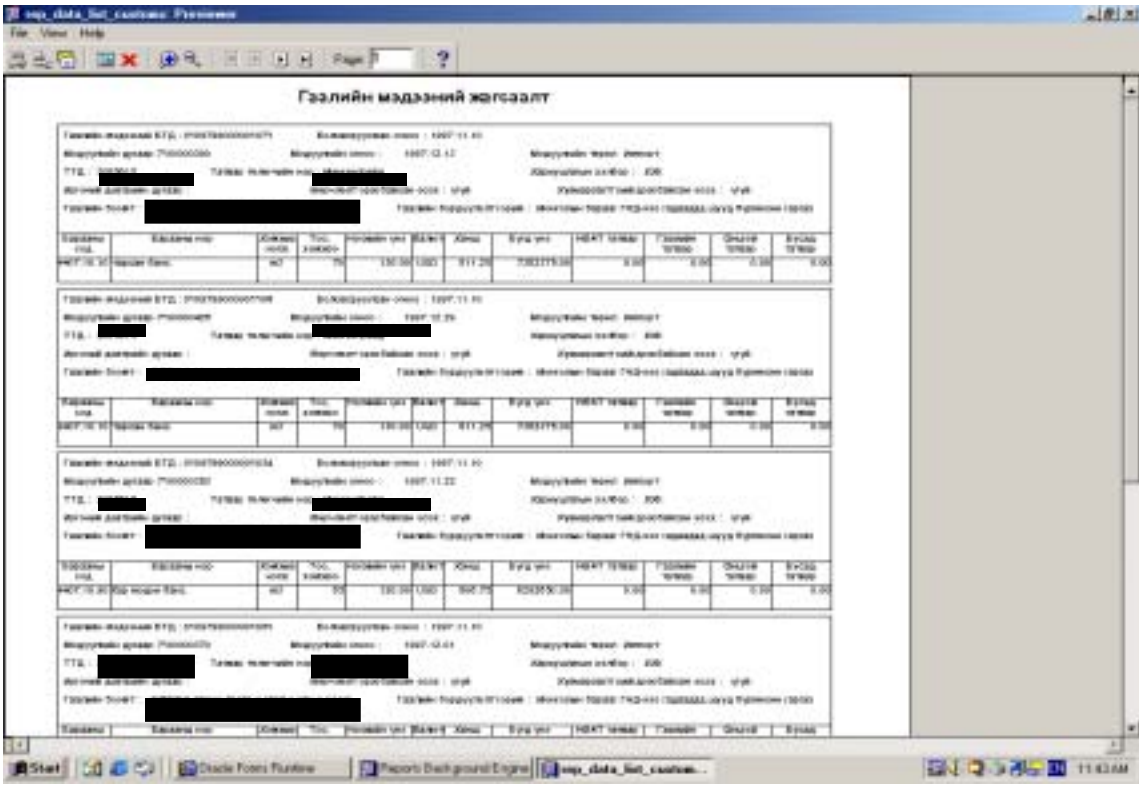


Fig. 3-8 The Image of the Printout of Records

4) Report

"Report" is the menu to show the status of the data in the DB and the history of utilization.

Regarding the stored data, a record count can be made to determine how many records are in the DB or how many records are managed in each tax office (Fig. 3-9).

From the history of the data, frequency of use can be determined.

5) Administration menu

Administration menu has some functions such as data import, data export, data delete, user administration and etc...

Data import menu allows the tax authorities to import the records from the DB in the CGA and tax offices, into the DB of the GDNT. Fig.3-10 shows the display image of the data transferred from the CGA. The function of this menu also shows the file name

later date.

[4] After entering the examiner's code and his tax office code, the rest of data are entered automatically.

and its property at the data import screen. The tax authorities can then choose the file from the file list and import the records.

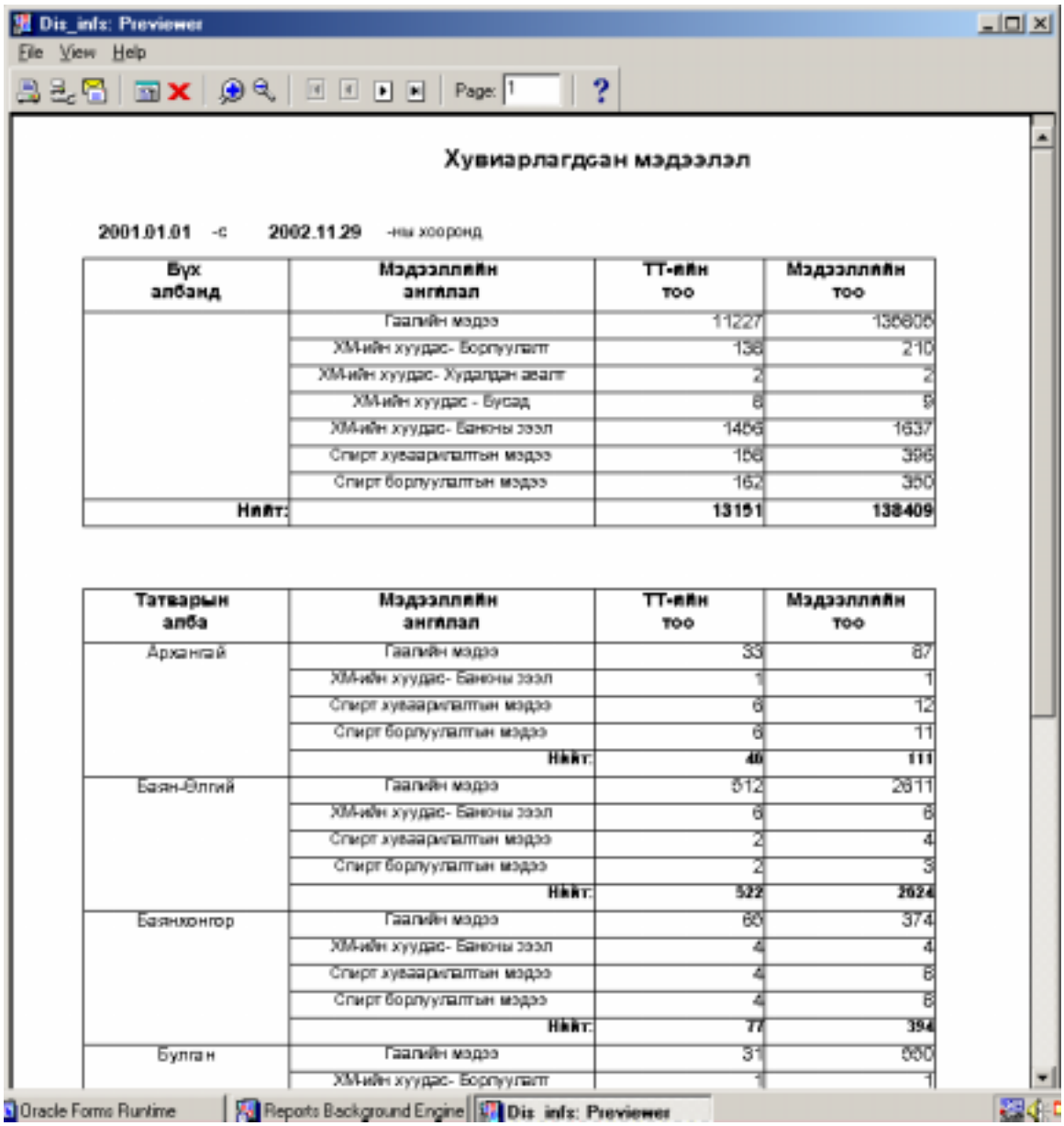


Fig. 3-9 The Image of the Report

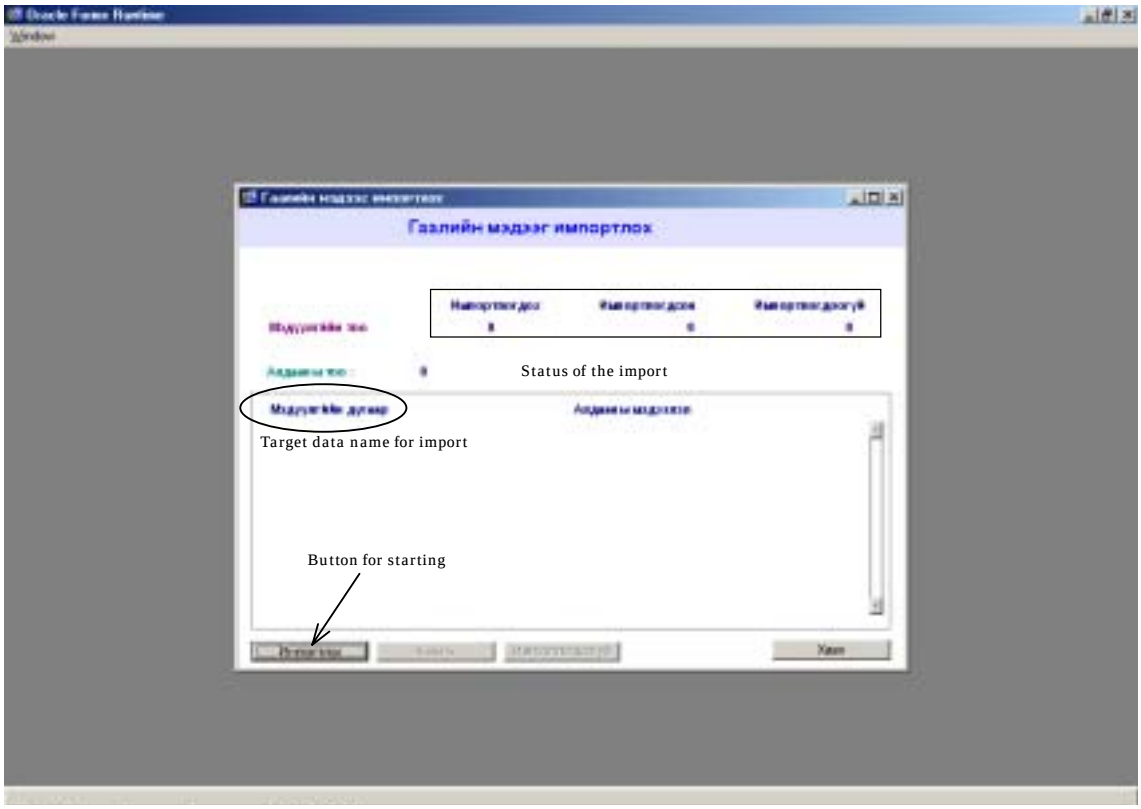


Fig. 3-10 The Image of the Data Transferred from CGA

There are other functions in the administration menu, such as administration of user account, data backup, data delete, program restore, DB and etc…

(2) Operation

1) Administrator

The Administrator can operate the administration menu above and also perform data updates, data retrievals and menu reports in this DB.

2) Operator

The Operator mainly retrieves data and prints reports. He/she can also perform data entry and data updates.

3.3.3 Security

(1) Security about maintenance of data

From the viewpoint of data maintenance, periodical backups of the system are performed to ensure that the tax authorities can manage in times of an emergency. The system is equipped with an uninterruptible power supply (UPS) in order to automatically make a backup once there is a blackout.

An alternate server is also available in case the main server at the GDNT crashes.

(2) Security against break-ins and hackers

The server is located in the system room and adequate security has been made to prevent break-ins. An entrance/exit history is maintained.

To protect the system against hackers, the system requires authentication with user ID and password to log in into the network. The system has the function to record the history of data use to manage the security of records. In addition, they can prevent unauthorized data copying by periodically checking the access log.

For network security, the tax authorities don't connect their internal network to the Internet in general.

(3) System trouble

Whenever a system problem occurs, the officer-in-charge at the GDNT must be contacted

(4) Establishment of the security rule

The system must be operated according to the tax authorities' information management rule which was established in this project. It is expected that they apply this rule to their confidentiality of information so as to be able to establish the security of the system.

3.3.4 User Training

Though the main user of information in this system is the examiner, the operator in each tax office operates this system, too. A training program was conducted at the GDNT to train officers in the use of this system. As for the examiners, a training class was conducted during their survey at the technology transfer seminar held by the JICA project team in December 2002.

3.3.5 Document Management

There are two types of documents for this system, the first is the specification and the source code related the DB and the other is the operation manual.

The specification and the source code are maintained at the GDNT. Any program updates made should be properly documented.

As for the operation manual, there are two types of manual: one is the system operation manual and the other is the user operation manual. The system operation manual is prepared for server operation at the GDNT, and the user manual is for operators. Both manuals need to be updated and re-distributed by the GDNT whenever the operation procedure has been modified according to the system changes.

3.4 Summary of the Transfer System of the Taxpayer Information

In this project, we also aim to support developing the system with which they can transfer the data from GDNT to CGA. In this section, the summary of this system will be discussed.

3.4.1 Functions of the Transfer System of the Taxpayer Information

In this project, we have supported to develop the system that transfers the taxpayer information from GDNT to CGA. The entire taxpayer information, individuals and corporations, are involved.

The CGA has requested to use the taxpayer information from the GDNT in order to develop the database system at the CGA, the purpose being that they can refer to the information of the declarer with real time access to the DB. Then, the way to transfer the information from the GDNT is to transfer all taxpayer information at the beginning of the operation (data categories should be determined through discussions between GDNT and CGA), and the DB at the CGA should be updated periodically whenever a change to an existing record occurs or new records are added.

3.4.2 Summary of the Transfer System of Taxpayer Information and its Operation

The summary of this system is shown in Fig.3-3. The GDNT generates the file from the taxpayer information system on a regular basis and puts the file into the data exchange folder. An officer at the CGA then connects to the server at the GDNT with dialup and copies this file to the server at the CGA for use.

3.5 The Future Tasks for the Electronic Processing of the Taxpayer Information in Mongolia

3.5.1 Task of the Third Party Information System

First and foremost, with the system that the tax authorities have developed in this project, records can be retrieved with any key in one table flexibly, but record retrieval from multi-tables is not possible. In the future, the tax authorities will use the system in general for examination and retrieval of records from multi-table will be needed. Secondly, they have seven tables of information on their system, but it will be required to use other information on papers in same way, then they will need to convert them into electronic medium.

When paper-based information is converted into the electronic medium, it should be done in a more efficient manner in order to be able to expand the types and quantities of the data. For example, about the information collection paper, it should be pc-based or when the tax authorities require the companies to present VAT invoices, a part of companies such as the large ones should be asked to present data via the electronic medium, not paper-based.

3.5.2 Task for the Transfer System of the Taxpayer Information

With this system, the tax authorities transfer the taxpayer registered information from the GDNT to the CGA, and to make use of the data more efficiently, they should modify the data to reflect the custom information system. Anyhow, it is also required to develop the system for matching the data with the taxpayer information and the customs information so that the officer of the CGA can make use of it in their inspections.

3.5.3 Task about Taxpayer Information Database System in the Future

Now, GDNT has two systems, the taxpayer information system and the third party database system. From the standpoint of audit, it is required for the GDNT to make use of the data stored in each database. The following items need further review: definition of the user, task of the data, and system extension.

Chapter 4

Customs Administration

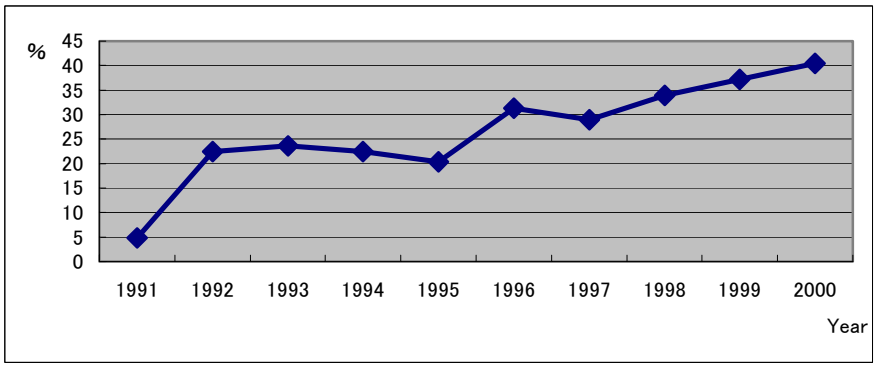
4 Customs Administration

4.1 Customs Operation

4.1.1 Revenue

The Customs General Administration has a major significance in Mongolian national revenue. The Customs General Administration levies customs duty, value added tax (VAT), and excise duty on traded goods. In 2001, customs revenue accounted for 40% of national tax revenue.

Fig.4-1. Trends in Tariff Income against National Tax Income



Source: Mongolian Customs General Administration data

According to the data issued by Customs General Administration, in 1999, customs revenue posted 37% of national tax revenue. The figure is consistent with the data published by the Ministry of Finance and Economics, suggesting the importance of Mongolian Customs General Administration in the collection of national taxes and, at the same time, the vulnerability of other tax collection functions.

Table.4-2 Breakdown of Tariff Income as a Percentage of National Tax Income

	Amount	Ratio
National Tax Income	**182,510.6**	
VAT （Imports）	31,768.4	17%
Excise Duty Tax （Note）	26,667.0	15%
Customs Duty	5,849,6	3%
Export Tax	3,161.4	2%
Total of Tariff Income		**37%**

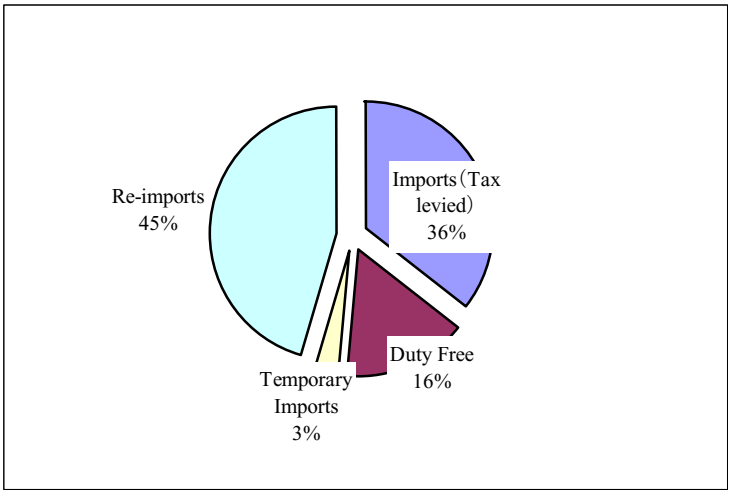
Source: Mongolian Ministry of Finance and Economics data

Note: If excise tax was collected by customs alone, the customs revenue would

account for 37% of national tax revenue. If the collection was half the total, the figure would be 29%.)

With comparison the VAT tax rate (15%) with the tariff rate (7%) using the figures in Table 1-2, duty f income appears too low (the duty could be only one third of VAT in spite of duty rate is half of VAT rate). This is due to the large volume of non-taxable or duty free goods imported. The country mainly imports relief goods or raw materials used by foreign enterprises and the volume of taxable goods imported is low. In fact, due to the airport customs data, it collected only 36% of the declared value for imports. Furthermore, 40% of total imports fall under the category of duty-free or non-taxable items, leaving only a few taxable goods.

Fig.4-3. Imports via Airport Customs (2001)



Source: Mongolian Airport Customs

Since Both duty and VAT are applied flat rate, tax calculation is very simple by multiplying the flat rate declared values.

(1) Import Tariff (Reduced to 5% from January 1, 2002)

The import duty is flat rate of 7%, excluding some products such as livestock or so on. A simple tax system is employed whereby regardless of the type of items imported, the same rate will apply. Therefore, the turnaround for tariff calculations should be very fast.

Tariff rates have been decreasing on a global scale, thus the increase in the tariff rate in Mongolia runs counter to the global trend in terms of securing national income.

Mongolia is dependent on imports of technologies and materials, necessitating the

government to adopt measures to reduce tax rates on imports of parts, materials etc. in order to attract foreign investment and the upgrading of domestic industries.

(2) Value Added Tax

54% of total VAT is collected by customs, indicating that customs collects more VAT than is levied domestically. This suggests that domestic VAT collection is not being smoothly executed.

(3) Excise Duty（Special Tax）

Excise duties on alcohol, automobiles and tobacco are so high that these commodities will inevitably be expensive after related tax is paid. Consequently, smuggling is rife. In these days, labeled wine, spirits, vodka etc, as proof of tax payment are observed in market. These labels are issued not customs but Tax collection agency. Therefore there is no system in place to check whether goods have been officially imported or were smuggled If customs can have the right to issue such evidence as proof of duty payment on import permission, GDNT can easily find whether commodities in market is officially imported or not. Since an excise duty is a kind of transaction tax, it is levied globally, predominantly in the form of VAT.

(4)Export duty

An export duty is levied on exports, such as fur, scrap, etc. However, the export tax does not constitute a major source of revenue. However export tax systems comes to be abolished in global trend, it is difficult to rely on export duty anymore..

The percentage of national tax revenue constituted by customs revenue has been increasing for the past ten years. The resulting significance of the customs' role in tax collection means, however, that there is a strong possibility that the other role of Customs, 'speedy clearance' is being hampered.

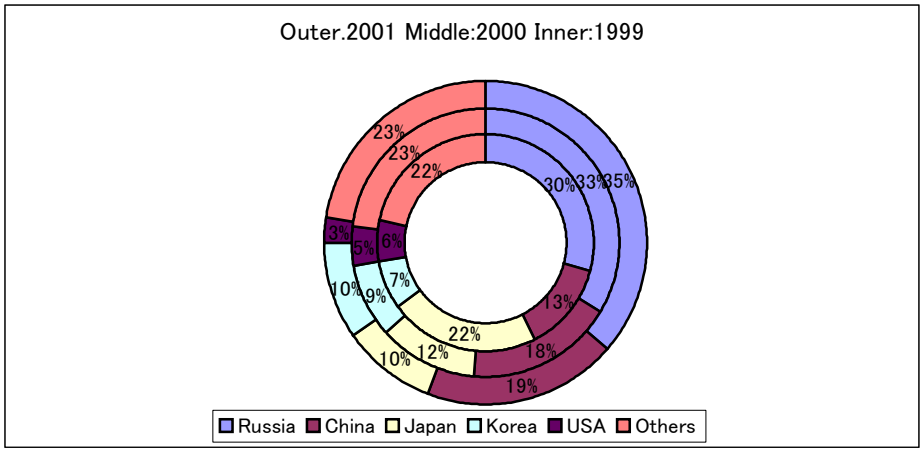
4.1.2 Trading Partner

Fig.4-4 shows Mongolia's trading partners. Among the major partners (Russia, China, Japan, and South Korea), Russia is the largest and accounts for an increasing share of trade. The reason for this is that petroleum constitutes the largest proportion (or some 50 percent) of all imports from Russia. While Japan's importance as trading partner with Mongolia is in relative decline, China is rapidly increasing its share, especially in consumer goods statistically classified as "others." Imports of consumer goods from

China increased by almost 70% from 1999 to 2001.

Naturally, consumer goods are the targeted items of customs revenue, with more already being imported from China in 2001 than from Russia. Because China is probably focusing on development mainly on a medium-to-long-term basis, the emerging importance of this economic superpower as trading partner with Mongolia is considered preeminent.

Fig.4-4.Main Import Trading Partner (1999-2001)



Source: Mongolian customs

Main Commodity from Russia and China (100million US$)

Russia	1999	2000	2001
Petroleum	65.7	100.8	111.9
Flour	6.2	12.9	5.8
Wheat	3.8	7	6
Others	74.1	86.1	78.2
Total	149.8	206.2	201.9

China	1999 年	2000 年	2001 年
Petroleum	3.3	6.1	5.4
Flour	2.1	8.9	8.6
Cotton	8.5	9.6	6
Fabric	9.2	11.5	7.9
Others	45.9	73.4	79.4
Total	69	109.5	107.3

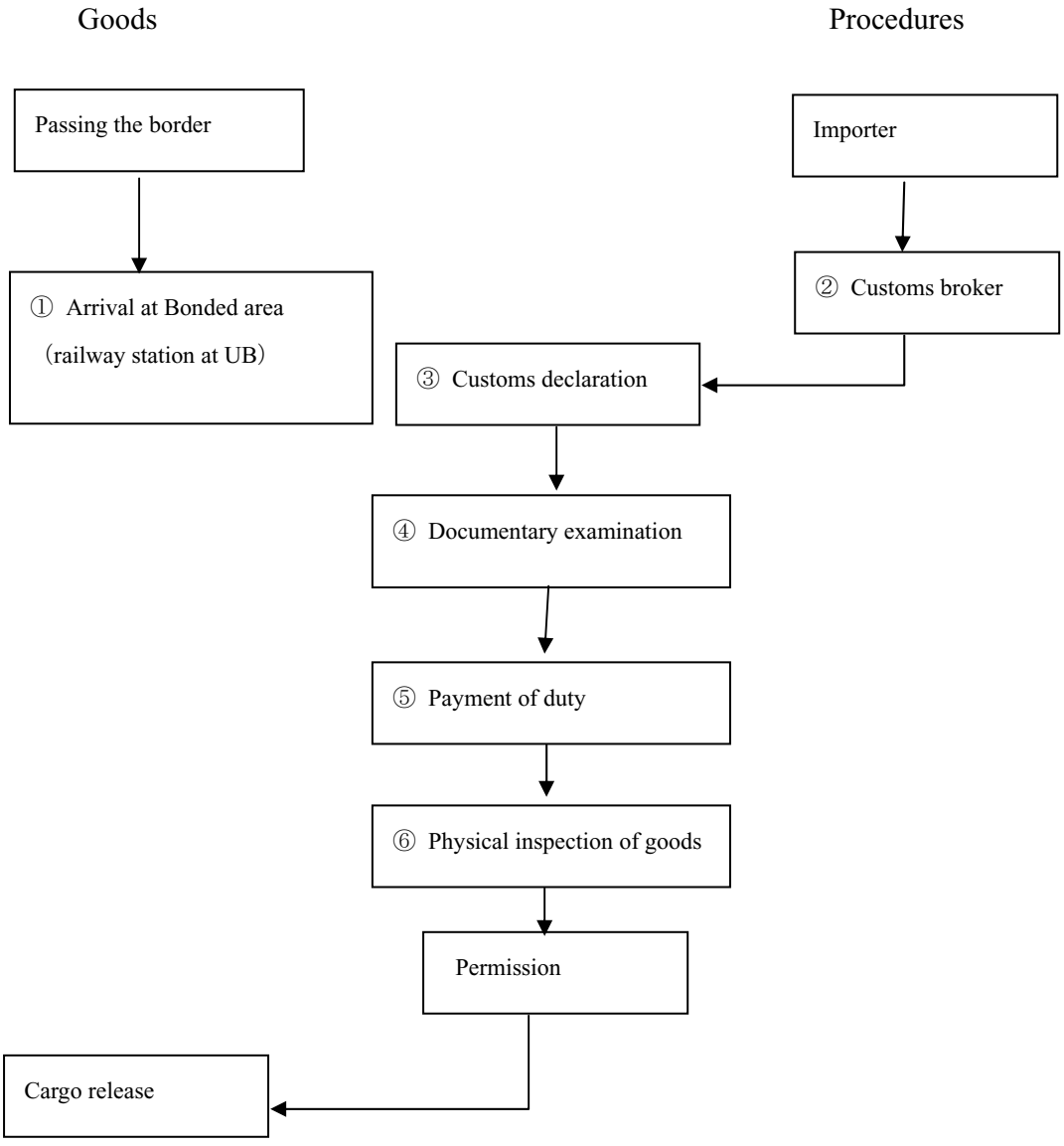
Source: Mongolian customs

4.1.3 Import Customs Clearance System

(1) Flow of customs clearance

This section studies the import customs clearance flow based on main customs Ulan Bator railroad customs point ）

Fig.4-5 Current Flow of Import Clearance (For Mongolian Railways)



Mongolian import clearance is being developed along similar lines to the legal framework of Japan, including:

・Introduction of registered customs license holders
・Introduction of the Law concerning customs brokers
・Introduction of a bonded area system

There are no major deviations from the global standard.

① Arrival at bonded area

The goods transported from the border will be carried into a bonded area, under the jurisdiction of the Customs General Administration. Declarations can be made on goods the receipt of which has been officially confirmed.

○UB station

There are 8 rail terminals with bonded facilities for customs clearance. To be a bonded facility operator, the procedures or requirements are due to Customs Law.

② Customs Broker

In principle, an importer requests the broker to compile a customs declaration. This procedure takes two types:

(a) An importer commissions a broker to compile the declaration form.
(b)An importer commissions the process from declaration, customs duty, inspection of goods to release of goods.

A brokerage tariff is not regulated, but the market price appears to be $4 for (a), and between $20 and $30 for (b). (a) is mostly used by individual importers. (b) seems to be used only by those importers, including large corporations, who attempt to follow the correct procedures when importing items such as relief goods and project-related cargos.

In the case of (a), because an importer is declared goods through contact with customs officer, and may attempt to use various irregular manners to obtain approval for their declaration such as under table money, it is likely that the approach is becoming the breeding ground for corruption.

Approach (b) is more favorable, but it is doubtful that importers are willing to pay the fees involved, which are often 10 times higher than (a).

○UB station

There are custom brokers offices engaging in filling up declarations in the customs building Prior to declaration, importer or customs brokers have to get cargo existence conformation form operators who controls designated bonded areas. Computerization of this procedure' is not planned yet.

③Customs Declarations

Customs inspects the accuracy of the declaration by inputting data based on the documents submitted. All data on the invoice are input manually by customs officers, requiring substantial manpower hours. In order to solve the problem, Customs is planning to introduce a new automated customs clearance system. (In this system, data input by a customs broker will be used directly.)

By utilizing the new automated customs clearance system, Customs aims to process all data including declarations and approval, etc. by computer and to introduce a statistical system based on declarations. Priority is being given to the establishment of the declaration/approval system.

○UB station

- Customs officials review customs declaration forms submitted at counter windows with entering data into the computer. These officials now examine the amount of remaining goods in bonded warehouses and verify whether the customs value declared is within the appropriate range manually. Customs windows are subdivided into the following four categories: 1) special taxes, 2) Mongolian economic entities, 3) foreign economic entities and international organizations, and 4) other unique cases. Declarants must wait in line while customs officials manually enter the data.
- The data entered is later double-checked by an organization responsible for checking the accuracy of data. If many lines on the customs forms are filled in, the officials only enter and check about half the data before proceeding to the next form.
- In many countries, a total value per item code may be entered for goods of the same item code. Conversely, in Mongolia, even identical goods must be entered separately if valued differently. This procedure is similar to copying an entire invoice, which is both time-consuming and entails extra fees.

④ Inspection of documents

Customs has to check the accuracy of the declared value. In other words,

・The Customs will accept the declaration by importers in principle, or

・The customs will determine the declared value using their own measures.

The turnaround time for customs clearance will vary greatly depending on which approach be adopted.

The method to determine the value for a declaration is stipulated in the Tariff Law, and is prioritized as follows:

・Transaction value
・Value of similar items
・Value of domestic product

This method is the same that of the WTO rule.

However, in reality, the transaction value on the invoice should not be taken at face value; according to sources (Customs General Administration, customs agents, and importers), it is evident that substantial adjustments are made.

This is due to the fact that traditionally, importer's declarations are not trusted and strict examinations are essential to ensure the receipt of duty and related taxes.

○UB stations

Customs officials check declared values according to the assessed value of each item established beforehand by customs. Before a computerized system was introduced, customs officials had to flip through the pages of a price-listing book to verify the code of tax on declared items. The newly introduced price list stored in a database is expected to reduce the time needed to clear customs.

⑤ Payment of duty

The tax set in④ above will be paid. There are banks on the premises enabling bank transfers in customs office, however, individuals tend to pay cash

⑥ Physical inspection of goods

Mandatory inspections of goods are peculiar to Mongolia. Customs requires a thorough check of imported items including the number of all items to be imported. They will then confirm conformity between declared items and actual goods received. Inevitably, some turnaround time is required for this, and in this process, some backstage negotiations are often held with importers involving illegal cash payments to officials and rendering customs a breeding ground for corruption.

On the other hand, there is a procedure to waive goods inspection for air cargo (for good declarant, the probability of physical inspection is lowered to one tenth), a trend it is hoped will continue. Importers detest the delay in goods inspection, clearance,

and incomprehensible procedures, and have voiced the need for improvement in the area.

○UB stations

- Physical inspection is usually carried out in outdoors. Generally in Mongolia, customs repack the opened package without sealing which can prove that inspections are conducted Such operation is globally adapted and can prevent importer's doubt to customs corruption.

(2) Customs at the Airport

Customs at the airport differs from railway customs as follows:

○Less cargo volume

- Customs at the airport only accounts for 6% of all Mongolian customs duty revenue.
- There are only three daily international flights in winter, and seven in summer. Destinations are limited to Beijing, Seoul, Moscow, Irkutsk, Berlin, and certain cities in Japan. The airplanes employed are not cargo aircraft but passenger planes (which carry cargo below the passenger section).
- Only three companies use air cargo regularly for commercial purposes, and cargo for two of the three accounts for 80% of all cargo. (The rest consists of supplies for relief activities and goods for foreign diplomatic missions.)
- Exports by air cargo are mainly cashmere and leather products, with 70% shipped to Japan.
- Forty percent of all imports by air are from Japan. These imports are limited to relief materials because Mongolia can only afford a small percentage of air shipping costs.

○Prompt Service

- MIAT unloads cargo and transports it to the terminal. The rule is that cargo must reach the terminal within two hours after landing, but this is usually done within an hour.
- Proper declarants can import cargo with fewer obligations for cargo inspections (such as cargo being inspected only once a month).

A limited volume of commercial goods is brought into Mongolia by air due to the expensive air cargo costs. Therefore, the existing facility (i.e., air cargo terminal building 15 m by 15 m in total area) is still large enough to handle all cargo, and customs clearance procedures are conducted smoothly. Moreover, some importers are granted customs clearance without cargo inspections (not extended to railway users) by customs at the airport, though not many importers pass through customs at the airport

in the first place. At the same time, this progressive approach taken by Mongolia should be noted.

Should the volume of air cargo increase, authorities must consider how to maintain the current level of services, including a possible expansion of the building.

(3) Views of Agents and Importers Regarding Customs

The following provides examples of comments by customs agents and importers about customs and what they wish to change.

○Typical comments by customs agents:

- Customs agents usually receive commissions on the following two types of service: 1) preparing declaration documents, and 2) handling declarations, paying customs duties, inspecting goods, and receiving goods for their clients. There are no tariffs on customs duties, but we charge 4 dollars for the service in 1) and 20 to 30 dollars for the services in 2). Most users of the service in 1) are individuals and most users of the services in 2) service are relief organizations, large corporations, and projects that are airlifting cargo. Clients willing to make proper declarations request the services in 2), while professional customs agents like us negotiate with customs officials on the client's behalf. Conversely, users of the service in 1) must negotiate on their own, which is why they often get into trouble. Instead of solving problems legally, they have no choice but to employ cash bribery. We, as forwarders, believe that the services in 2) are better, but importers may consider such services too expensive.
- It is true that some importers request that customs brokers be flexible about freight inspection. However, if customs inspectors discover errors in item codes or an underreporting of product volume, people filing declarations are supposed to file deficient returns. However, underreported goods are confiscated or offered to custom inspectors under the table; in these cases, customs clearance is often allowed.
-Many importers do not possess specialized knowledge about trading, which may why most are not given privileges for people who declare goods.

○Typical Comments by Importers

- The cargo inspection obligation for all goods is not cost-effective and stupid. Effort and time should be invested in other areas. (We were surprised to find that customs officials in Singapore do not inspect cargo at all.)
- As long as governments act under the belief that the private sector lacks credibility, no improvement in customs systems will prove productive.
- Unfortunately, observing all applicable laws restricts us in many areas of corporate activities. We agree that people who properly declare goods should be given certain privileges, but are not satisfied with how customs officials neglect all analysis when collecting data.
- We have one employee who specializes in customs-related negotiations. (We only outsource the paperwork to customs brokers.) This employee flexibly deals with customs officials, even illegitimately from time to time.
- Mongolian customs depends too much on “paper works,” while the rest of the world is digitized. They should consider discarding their outdated systems and introducing computerized data processing systems to speed up their administrative services

4.2 Customs at the Frontier

Chinese and Russian routes are the major trading channels into Mongolia. Three customhouses (at Dzamin Uud on the border with China, Suhbaatar on the border with Russia, and Ulaanbaatar) process 95% (on a declared value basis) and 85% (on a number of transaction basis) of all declarations.

Two major international cargo routes into Mongolia are China-Dzamin Uud-UB and Russia-Selenge-UB.

Mongolia is a landlocked country accessible from all its borders. Customs sets up temporary overland crossing points in limited seasons.

This geographical location of Mongolia also invites smugglers. Although temporary customhouses are set up at strategic locations, it is impossible to monitor the entire international border with Russia and China around the clock.

The customs law of Mongolia states that all goods must cross customs-designated crossing points and it is the responsibility of customs to clear those goods. Therefore, customs does not have the authority to regulate smuggled goods and those who do not cross the designated points. This is the responsibility of border control, which is charged with the following duties:

- Patrolling assigned areas
- Tracing footprints left on the ground
- Questioning alleged illegal immigrants, emigrants, and smugglers

Smuggling is considered a crime and therefore official customs procedures are not necessary. The border control officials are there to arrest smugglers as criminals and not to provide customs services.

The jurisdiction of customs and border control never crosses, with customs controlling imports and exports that pass through designated routes, and border control controlling all other goods and people. In other words, customs deals with legitimate routes (i.e., large-scale physical distribution of goods) to Mongolia, while border control deals with illegitimate routes.

Fig.4-6 International Transport Mode in Mongolia

International transport mode in Mongolia side is summarized:

-Not only Chinese origin cargo but foreign cargo via Chinese ports is carried by railway

-The cargo from Russia routes is carried by railway or vehicles

Table.4-7 Route/Transportation Mode

	Cargo origin	Transport mode in foreign side (China or Russia)	Transport mode in Mongolia
China Route	China	Railway	Railway
	Other than China	Railway Vehicles	Railway Railway
Russia Route	Russia	Railway Vehicles	Railway Vehicles
	Other than China	Railway	Railway

4.2.1China Routes

The railway cargo via Chinese route: both Chinese origin and foreign cargo, carried by railway needs following procedures:

-Loading at China ports or stations→Deliver to border→ Transship to Mongolian railway at border→ Deliver to UB→Customs clearance

In additin, not only railway through transportation but, railway/vehicle transshipped transport are widely utilized for. Chinese origin cargo

-Vehicle transport to border →Customs clearance at border→ Transship to

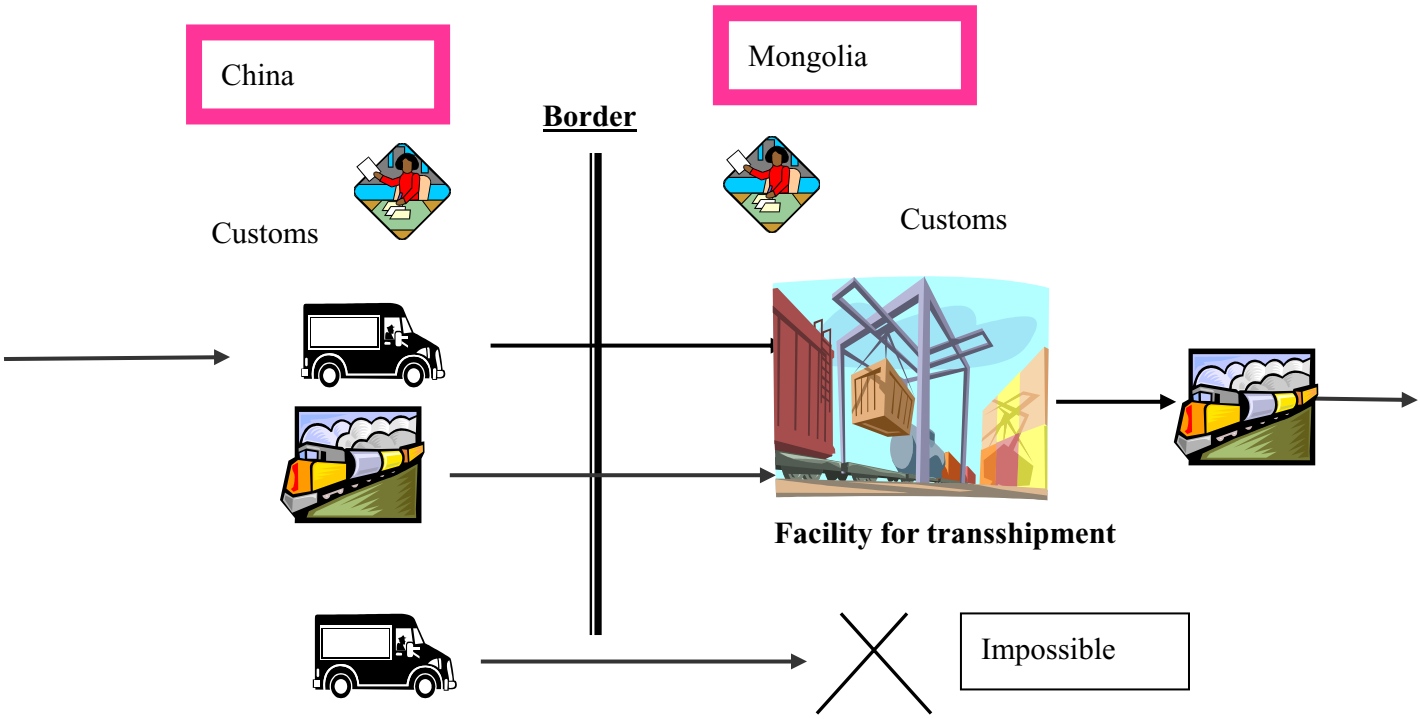
Mongolian railway→Deliver to UB

It is usually considered that through rail transportation is the most effective and reasonable than any other transportation methods because through rail transportation requires no transshipment, however situation is quiet different at Chinese border. We can see that plenty amount of cross border transport depend on combination between vehicle (Er lian hoto- Dzamin Uud) and railway (Dzamin Uud—UB). Especially, individual prefers combined transportation to rail though transportation.

The reasons why such interesting phenomenon is observed are as follows

- It is difficult for private sector to reserve enough capacity on Chinese railway because of capacity shortage
- Charge of international transportation is set up so expensive that combination of domestic transportation is cheaper and preferred by users.

Fig.4-8.Image of China/Monglia Border Crossing



- Railway cargo from China is transshipped to Mongolian railway at border, but bonded transportation is available.
- Vehicle cargo from China needs transshipment and customs clearance at border.

Since road infrastructure between UB and Chinese border, Dzamin Uud, is not fixed, vehicle cargo transportation is not feasible on commercial basis. Therefore all

transportation between UB and Dzamin Uud depens on railroad.

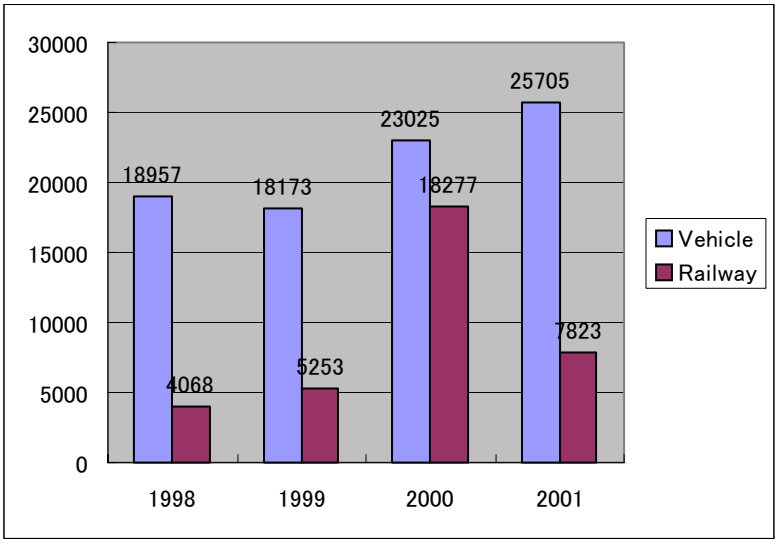
・Vehicle driving speed per hour is not exceed 30km even if possible.

・Night driving is impossible

・Transit time between UB and Dzamin Uud is over 2 days, which is longer than railway （1 day）

Vehicle through transportation from China is limited to the border neighboring area where road infrastructure is fixed. Consequently, goods for UB carried by vehicle needs to be transshipped into railroad at Dzamin Uud terminal.However the vehicle transport of Chinese origin cargo is growing rapidly., there are 2 customs clearance place: one is ate at border and the other us at border.

Fig.4-9.Import Customs Clearance Value at Dzamin Uud (100 million Trg)



Source: Mongolian customs

(1) Small quantity cargo(such as personal who purchase goods at Er lian hoto and bring to UB)

Following procedures are required

a .Vehicle transportation from China

b. Customs clearance at border customs office:(Cargo status changed form foreign cargo to domestic cargo)

c. Vehicle transportation to Dzamin Uud station

d. Transshipment to rail and dispatch to UB

Small Cargo Loading at Dzamin Uud Station

(2) Large quantity cargo (such as ocean containers or box type container) a border

1)export customs clearance at Chinese border

2)bonded transport into Mongolia

3)vehicle transport to Rail station

4))delivered to UB by railway

5)import customs clearance at UB

Compared with pattern①, This route is not required border customs clearance,

Mixture of bonded and imported cargo makes the risk of duty deviation because customs can not distinguish whether cargo is imported or not from the outer appearance. Therefore, a customs duty must be collected on the border. Box type container or vehicles can easily secure the cargo if sealed and inevitable for bonded transportation.

Generally speaking, importers prefers to customs clearance nearby importers because they want to obtain cargo as soon as possible. Especially in Monglia, this requirement seems strong because they usually do customs clearance by themselves and have go to border. Therefore the needs for bonded transport is consequence and prevailing box type container carried by railway is highly expected.

1) Railway

The width of railway tracks in Mongolia differs from that of Chinese railways. Therefore, cargo must be transshipped at the border. However, import clearance is not required there and only customs inspection of bonded cargo is necessary for crossing

the border. Imports are cleared by UB. Cargo manifests with declared values and exporter invoices with declared values must accompany rail freight for import clearance at UB customs. This allows UB to keep track of declared values, thus theoretically preventing undervalued declarations.

However, since documents are sent with the goods and handled manually, customs lacks the time to thoroughly examine each document or have the declarant correct improperly completed documents. For this reason, the full use of rail freight manifests has not been done.

This ongoing computerization of customs systems will connect the frontier customhouses (UB, Dzamin Uud, and Selenge) in a network and enable rail freight manifest information to reach UB before the actual freight arrives. We expect that the accuracy of amounts declared will improve through this computerization.

Moreover, X-ray freight inspection devices have been installed on the Chinese side of the border to prevent illegal importation. Such devices have also been installed in Manzhouli.

Rail Terminal

Transportation from border to rail terminal should be escorted by custom because cargo should be under bond. Shortage of customs' facility (such as vehicle) makes escort service difficult; We can find that customs brokers has been providing such service on behalf of customs. In addition, Road infrastructure is not enough equipped for ocean container transport.

Road between Railway Terminal and Customs Point

2) Vehicle transport

Chinese vehicle can run Mongolian territories, however Mongolian vehicle cannot pass beyond Er lian hoto. Transshipment to Chinese vehicle is necessary for Chinese domestic delivery.

Poverty of road infrastructure make through transportation difficult, road transportation is limited within border area. The new road of UB- Dzamin Uud is highly expected and feasibility study by ADB is now going on.

On the contrary, China already equipped with 4 lanes road from Er lian hoto to inland,

which is consistent with Asia highway standard. Unless Mongolian road construction is executed, institutional change for transportation is not necessary, however, if situation changes and the possibility of through transportation increases, new international road transport rules will have to be regulated. Such as

a. Completion of bonded transportation system
b. Qualification of through transport business providers

3) Border crossing procedures(Vehicle)

Since Chinese vehicle is approved domestic transportation, facility for transshipment is unnecessary, however customs inspection facility is necessary and well equipped with wide area and 8 lanes access road(4 lanes each for export and import). Traffic is so heavy that a lot of time is required for passing through border. When traffic volume increases more, enforcement of inspection facility will be inevitable.

Customs Check Points (Vehicles)

Cargo Inspection

(note) We can observe transshipment at border in many foreign cases because “cabotage”,:prohibiting foreign vehicle from domestic operation, is common standard in international transportation . Mongolia is exceptional case of “cabotage” that domestic transport is permitted to foreign vehicle.

4.2.2 Russian Border

(1) Rail Transport

Since rail gauge width is same between Russian and Mongolia, through rail transportation is possible without transshipment at border. In order to reduce the number of under-value import declarations, customs’ requirement of describing transaction value on railway manifest has been spreading into importers.

(2) Vehicle Transport

Due to road infrastructure between UB and Suhbaatar fully equipped, required time for transport is less than half day. We can find that Russian vehicle’s run freely in Mongolian territory.

Road Conditions

Russian Vehicles

(3) Border crossing point

The border passage by the track is very dull, and customs' facility is also shabby.

Border Checkpoint

Cargo Inspection Place

Since Russia vehicles can run in Mongolian territory, transshipment facility is unnecessary. Simple freight inspection facility is located at border, however poor capacity and outdoor operation hampers high working efficiency of customs operation. From the point of view, new facility is under construction by custom's budget. The effect of new facility for both customs and users is highly expected.

New Facility under Construction

The procedure of border crossing in small quantity transport is:

a. Arrival of importer

b. Orders brokers to fill out declaration form

c. Customs declaration, duty payment by importer

d. Permission for import after 100% physical inspection

Importers has to go to borders and fulfill customs procedure including cargo inspection by themselves because customs brokers at border does not provide extra services beyond filling up declaration form,

Without import permit, cargo have to stay at border and are not allowed to remove. Imports returned to UB and come back in order to reply the customs requirement.

Cargo Inspection

Waiting Vehicle

4.2.3 Conclusion of Cross Border

While both the Russian and Chinese routes have similar systems, the routes are also marked by distinct differences that can be traced due to the historical and economic differences between Russia and China.

The Russian route transports less cargo than the Chinese route and its customhouse is poorly equipped. The Russian route, however, has been historically important and has a good transportation infrastructure that allows trucking to UB without having to transship (although Russian vehicles are used). Conversely, the Chinese route has a well-equipped customhouse, but through transport by truck is difficult and railway/vehicle modal shift common. In terms of trade channels, China-Mongolia ties are likely to strengthen further than Russia-Mongolia ties. However, the poor transportation infrastructure in Dzamin Uud is limiting the international flow of materials (by requiring transshipment from railcars and trucks). Most goods will still be transported by rail and mainly declared at UB customs in the midterm to long-term future.

(1) Freight Inspection is Too Heavy a Burden

Checkpoints along the Russian and Chinese borders with Mongolia are strictly guarded, with freight inspection and customs clearance taking much time. Customs inspection is conducted on the roads at the border with China, thus suggesting that the facility is poorly equipped and freight inspection along the borders is hard due to the severe natural environment. Therefore, efforts should be made to ease the burden of freight inspection.

Most importers and exporters, however, believe that outsourcing customs-related affairs is more costly than being handled in-house. In many cases, importers travel to the borders to inspect cargo. Comprehensive services including customs clearance and

international transport should be developed to enhance Mongolia's international competitiveness.

Border customhouses, in particular, have limited equipment and staff compared to UB, and transport by truck may pose a higher risk of delay at customs clearance.

(2) Development of Bonded Facilities for Truck Transport

Goods transported by trucks must be cleared at frontier customhouses because bonded facilities under the jurisdiction of customs for truck transport inland are currently not available. Bonded facilities will allow the customs clearance of trucked goods in regions closer to consumers. Truck transport is not now practical due to the poor infrastructure, but as more motorized vehicles are employed, truck transport should be included on the future development agenda of international physical distribution.

4.3 Customs Development and Problems

The UNCTAD-developed customs program ASYCODA 2.6 has been used in Mongolia since 1995. However, the system was not intended to last beyond 2000 and will be discarded at any time. It will take two years and cost about $1.5 million (USD) to upgrade the program. Mongolia cannot afford this upgrade and has begun developing its own program.

The new program about to be introduced includes a system that deals with all procedures, from declaration to permission, and a statistical system (to collect such data as information on importers and exporters, the names, quantity, and prices of transported items, and storage of such data until duties are paid). Basically, the development of an automatic clearance system is now given priority. This project was first scheduled to begin in May or June 2002, but was delayed until November 2002, when final checks were made.

Ongoing attempts to computerize customs serve the following two purposes:

4.3.1 Automating the Clearance System

Automating customs clearance (from declaration to permission) is now underway and statistic information extracted mainly from declarations is being compiled in a database. The system is designed for customs to use declaration data inputted by customs brokers or declarants directly (thus eliminating the need for customs to reenter data into the computer), and give clearance permission and accept payment of duties electronically. This should reduce the time needed for inspecting documents to 15 minutes, which now

requires more than 24 hours when done manually. However, customs has not indicated any intention of adopting a policy of abolishing physical inspection, and does not believe that inspecting documents is sufficient for clearance.

4.3.2 Linking Customs at the Frontier with the Customs General Administration (Transmission of Rail Freight Data)

Data can be exchanged between customs at the frontier and the Customs General Administration (i.e., Ulaanbaatar Station Customs) with these offices connected online. Sending rail freight data from customs at the frontier to UB is very important. It is extremely helpful to UB that manifest information from customs at Suhbaatar and Dzamin Uud be available via VSAT before the freight arrives, because it will enable UB to obtain the correct declared values in advance. Rail freight manifests should include declared values based on information from such documents as the export declaration.

However, because documents are sent with the goods and handled manually, customs lacks the time to thoroughly examine each document, or have the declarant rewrite improperly completed documents. For this reason, the full use of railway manifests systems has not been done.

The expanding provision of freight data online is expected to produce meaningful results.

It is also expected to detect and prevent undervalued declarations, which is a major challenge facing customs inspection, by connecting customs at the frontier with the Customs Central online and exchanging declaration data in advance.

(1) System Installation Status

1) The new computerized customs clearance program at UB (rail station customs) is working satisfactorily. The customs inspection program has been corrected and is now engaged in a test run. The statistical program has been tested and is considered completed. UB and the Customs General Administration have been connected online (via optical fibers). No jamming has been reported and the speed is fast. Other minor programs will be installed in due time.
2) The system at customs at the airport is working properly. The problem is that it cannot be connected to the system at the Customs General Administration. Customs at the airport is far (two mountains away) from the city and located in a valley, which renders radio modems unusable.

3) The system at the Dzamin Uud customs has started operation. Currently, only a small volume of information can be transferred at one time, and the system is not yet completed.

(2) Benefits of the Newly Computerized System

1) The time required for customs clearance has been reduced by at least two hours.
- Data processing at customs has become speedy and free from entry errors. Information on the declaration forms had to be entered three times in the old system, but now is only entered once.

2) Thanks to computerized system, more customs officials, who used to engage in entering data, now have time to evaluate customs duties. This has speeded up the services.

3) Inspection quality has improved. Administrators now can watch process of customs clearance on monitors..

4) All information can now be transferred to the Customs General Administration in no time at all.

4.3.3 Problems

(1) Lack of swiftness in clearing goods

The actual task of Customs is to satisfy:

(a) Swift clearance of traded goods, and

(b) Collection of customs duties as required.

These requirements contradict each other. Specifically, since Mongolia has an ineffective system of collecting taxes, more efforts have been put into (b).

In comparison with global standards, Mongolia does not have any unique procedures in terms of the customs clearing process, and employees fairly normal procedures.

However, in terms of operation, the following inconvenient and costly approach is used:

(c) Excessive check upon declared price

(d) Mandatory physical inspections of all items.

In order to avoid (c), and (d), it is necessary to implement an efficient, fast set of procedures for good declararnt. (e.g. swift clearance through Customs.) However, the concept of introducing such approach seems tenuous.

In industrialized countries, “providing simplified procedures for good declarant” is deemed appropriate in view of compliance to laws. Both customs and declarants

are benefited by such measures as follows:

・It reduces the burden on customs, which will enable cutbacks in officeres handling goods inspections.

・It guarantees speedy clearance to importers.

Socially, it will help to reduce cost and time.

(2) The relationship between Customs brokers, Importers and the Customs

In principal, customs brokers are used in Mongolia. The business is as follows:

(A)A Customs broker types the declaration forms.

(B)The Importer conducts all tasks for releasing goods upon submission of a declaration form.

Of the above two, (A) is more commonly used in Mongolia. For industrialized countries, because declarants's cost of (B) is almost ten fold expensive than (A).

In (A), an importer tries to negotiate with the Customs officials in order to obtain permission for the clearance of goods using cash, often resulting in corruption. Illegal acts in customs clearance certainly exist in Mongolia, but it is important to emphasize that importers are also playing an active part in the illegal process.

Table.4-10 Advantages and Disadvantages of the Customs Agent's Services

	Typing service only (A)	Comprehensive Service (B)
Importer/Exporter	- Low cost - Staff should attend to the Customs	- Expensive - Highly convenient - Proper procedures are more often applied.
Customs	- Time-consuming - Becomes the cause of corruption	- Expedited processing. - Illegal acts are avoided. - Time and effort of the Customs' officials can be reduced.
Customs Agent	- No investment is required (Even a small scale Agent can perform functions.)	- Increase in revenue. - Requires investment

Summary by a writer

(3) Necessity of following the Importers Information

The audit period to determine customs duty after receiving the goods is stipulated in many countries. This allows Customs to determine the duty even after granting permission for import. If such a system were not functioning, the customs duty would have to be determined in full at the point of import, imposing a huge burden in terms of time and work involved. Research conducted in Mongolia showed that audit adjustment was made to only 0.25％ of all transactions.（Posting a profit of 2 billion Togrog.）

If an audit system is put in place, a speedy clearing system can be realized, which will result in increased efficiency. For this, it is necessary to be able to confirm the locus of importers even after clearance. Therefore, it is crucial to be able to obtain data from GDNT to ascertain “the legitimacy of an importer (Corporation/Individual); the accuracy of the listed address” etc.

Customs’ data is highly valuable to the GDNT and vice versa. It is necessary for the customs to investigate the possibility of using the data from the point of view of securing duty revenue as well as guaranteeing fast and efficient clearing by selecting good declarers.

4.3.4 Suggestions

(1) Computerization and its Effects

A conclusion drawn from the discussion above is that improving the customs clearance procedures in Ulaanbaatar, the largest consumer region of Mongolia, is extremely important. Our research this year has focused on ways to speed up customs clearance that suit the general conditions of each country, while maintaining the current level of customs inspection capacity. Identifying proper declarants is one effective method.

Mongolian customs is now working on establishing a computerized declaration system. While there is no doubt that such a system will improve customs operating efficiency, the effects of the system will be limited because Mongolian customs has no intention of eliminating the requirement of inspecting all cargo even after implementing a computerized declaration system.

Although having the private sector enter declaration data will save customs labor, the following three problems remain:

1) Identical goods valued differently must still be entered separately. This procedure has not been simplified.
2) The system does not automatically verify the declared value. Possible ranges

(regarding the minimum and maximum values) for each item are not set up in the system.

3) The system does not automatically identify proper declarants. Declarants' data are not included in the RFP.

Apparently, the idea of accumulating and utilizing data in the computer to verify declaration documents has yet to be considered.

To address this problem, customs must adopt a risk management program in the clearance system to assess risk based on accurate past records of declarants, the goods declared, and other related information. Until such time, all freight inspections are unlikely to be abolished.

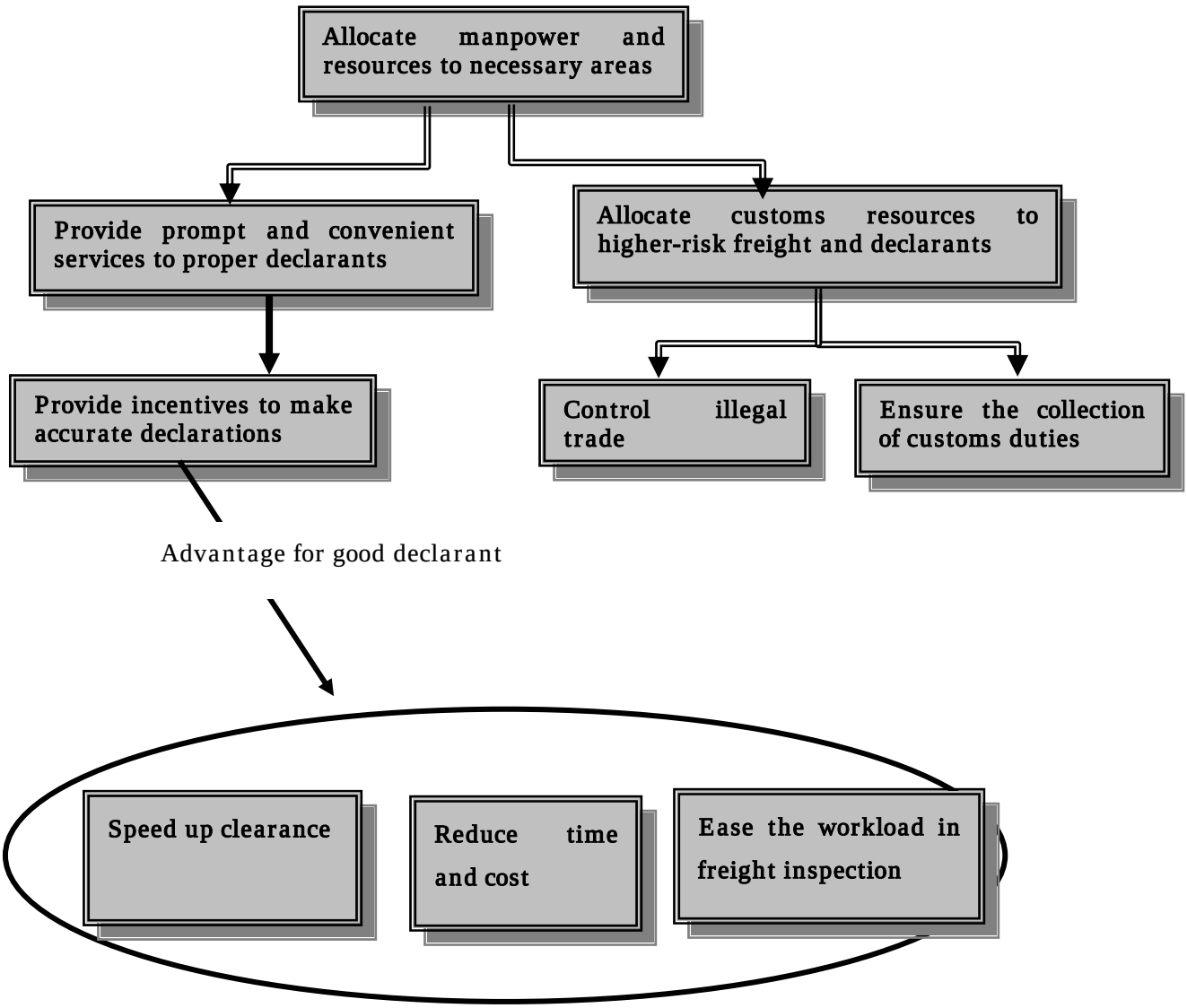
Moreover, customs should consider offering a reasonable degree of convenience to proper declarants for reducing the labor necessary for documentation and freight inspection. Customs already has a database containing information on importers and exporters, and with this database can analyze and verify most customs transactions. Industrialized countries should provide technical assistance in this area and in making the automatic clearance system quicker and more convenient.

The automatic clearance system has produced positive and visible results, and established a suitable environment for a risk management program. Mongolian authorities are now more knowledgeable about the concept of risk management. Moreover, Mongolian customs has proven to be competent by developing a computerized customs system on its own. Thus, Mongolia should be able to adopt a risk management system without much difficulty.

This system will benefit declarants in the following two ways:

4) Proper declarants will be granted the privilege of speedy, priority customs clearance.
5) Fewer freight inspections will save time and cost.

Fig.4-11 The Effect of Risk Management Program Introduction



(2) Preventing Corruption of Customs Officials

The issue of bribery and dishonesty involving customs officials is a major one in Mongolia. Government employees are paid less here than in any developing country and Mongolian customs officials are no exception. Although wages should be raised or appropriate incentives offered, neither is easy. The computerization of customs, however, is expected to improve the ethics of officials.

Customs clearance usually requires a great deal of time and declarants often resort to bribery to have their imports clear quickly. There is no better way to prevent corruption than expediting customs procedures.

Computerization also minimizes any intentional misinterpretation of data. Reducing the opportunity for a customs official to speak to a declarant alone will naturally reduce the chances for bribery to occur. Because customs documents are inspected in an adequately staffed room, officials have little chance to ask for bribes. Conversely, freight is typically inspected by one official in the presence of the declarant, and such a situation often invites foul play. Abolishing freight inspection will therefore reduce the chances for bribery.

Fewer freight inspections will allow declarants to receive their shipment quickly without being involved in corruption. Such people should be motivated to "make an honest declaration so that their freight may not be inspected."

Having more than one inspector inspect freight may also prevent corruption. However, in one developing country where teams of two inspectors work together, the bribes paid to these inspectors were reportedly doubled. Therefore, such an arrangement is apparently not risk-free.

The customs clearance program may need to include a function to monitor the records of customs officials (including the official's name, work start and end times, time spent on inspection, and items declared item) so that any irregularity may prompt the auditing department to initiate a follow-up investigation. This may help raise the moral standing in customs offices. Just the idea of being monitored may help to prevent corruption.

(3) Improvement of the Auditing System

Revised declarations after audits account for less than 1% of all declarations handled by Mongolian customs. Improving this auditing system may help curb tax evasion and increase the efficiency in customs clearance. (Auditing is now virtually impossible in Mongolia and all duties must be collected at the time of importation. Therefore, examining customs is both strict and time-consuming. A more effective auditing system may reduce the time and energy spent at importation.)

For the auditing system to work, customs must always know the whereabouts of importers. The information link set up with GDNT will provide customs with such information such as the permanent and contact addresses of importers. At present, the GDNT is trying to introduce license system of private importers. By limiting the valid period of a private import license and periodically confirming the contact information, the GDNT should be able to provide real-time information about importers to customs.

However, customs at the airport is now apparently creating its own information database on importers because the data provided by GDNT is outdated and cannot be

used to contact importers. Consequently, greater efforts on the part of GDNT are urgently needed.

(4) Cooperation with Chinese Customs

Developing good relations with export customs will help import customs to uncover illegal imports. In 2001, for example, Chinese customs succeeded in drastically reducing the number of illegal exports by stricter law enforcement at the request of Mongolian customs, who have been troubled by illegal imports of alcohol from China. In 2002, the Er lian hoto Station introduced X-ray devices that can examine an entire freight car, so that determining what is inside a container has become much easier.

Moreover, it is better to require photocopies of export declaration forms or export data to be submitted for clearing imports at Mongolian customs, thus making the practice of undervaluing theoretically impossible. (Import declaration invoices cannot be fabricated because export declaration forms prescribe correct export values.) There should also be no difficulties in exchanging documentation since the border customhouses of both countries are in close proximity.

Unfortunately, Chinese customs is not free from corruption and bribery either, and not all declarations are made properly. Conversely, it is still good news that customs of both countries are discussing these issues. Continued efforts are required on both sides.

Possibility 1

- The Chinese export declaration will prevent undervaluing at Mongolian Customs because it describes actual transaction values.
- However, if this is implemented, the following will become evident:
  - At the China border checkpoint, regulated export goods are exported freely and unofficial.
  - Mongolian Customs, regulated import items are imported freely and unofficial.

Therefore, the border collaboration seems difficult but deserves to examine.

Study meetings are being held between Mongolia and China to improve border procedure between the two countries.

4.4 Issues to be considered

4.4.1 Harmonizing Customs and International Distribution Systems

Landlocked Mongolia must secure routes of transport routes to China and Russia in order to be internationally competitive. In fact, Mongolian exports are currently not competitive at all in the international market due to expensive shipping costs. Mongolia's future economic development depends on how customs proceeds from now on. Customs must not ease their efforts in lowering the barriers at the borders for both people and freight, and must make international distribution more convenient.

In this report we have discussed:

- Customs clearance and related time-consuming practices
- Freight inspection and related problems
- Cross-border shipment by truck and related challenges

Mongolia has no businesses that provide comprehensive international trade services including assistance for smooth customs clearance. (Importers and exporters still believe that outsourcing is too expensive, and thus less costly to handle customs clearance on their own.) How to encourage and collaborate with the private sector in this area is an important agenda for Mongolian customs.

The following problems regarding customs and transportation may arise in the future, especially if cross-border shipments by truck increase.

4.4.2 Customs

The less developed a country is, the more it depends on customs as source of national tax revenue. Developing countries have no choice but to collect duties at the borders since they generally lack auditing systems to conduct follow-up activities. Clearing customs while the goods are still under customs control may be the most effective way of securing tax revenue.

For trucks, however, bonded districts and facilities must be established in such inland areas as Ulaanbaatar. (Importers may find bonded facilities more convenient because clearance is done locally rather than far away.) In that case, bonded transportation systems from the borders to inland bonded districts must be made available. This should be a comprehensive project involving not only customs, but also customs agents and trucking companies. Consideration should also be given to how these agents and companies actually provide their services. Above all, customs must be hedged against any failure to collect duties.

A system like TIR Carnet in Europe may be the answer, but to build such a system with

guaranteed tax collection, financing will prove the major challenge.

4.4.3 Transportation

Mongolia's trucking industry is still in its infancy and relies on Russian and Chinese vehicles even for domestic transportation.

In terms of reciprocity, many countries have mutual agreements with other countries to allow foreign-based trucks to travel through their territory, or limit domestic transportation to domestic trucking companies based on the right to engage in cabotage. Therefore, Mongolia is an exception in the global community.

This means that all money earned by trucking goes to foreign companies. A grand design for developing the trucking industry for international transportation must be presented. Customs may want to reconsider the licensing of trucking companies to secure duty revenue.

These issues cannot be resolved by customs alone, but require the cooperation of all parties concerned. Mongolian customs has achieved a high measure of success by introducing its own computerized clearance system. Subsequent efforts should be made to facilitate and stimulate international trade for Mongolia. To achieve this ultimate goal, reforming customs alone is not enough. Mongolian authorities must work on such efforts from a broader perspective and take a comprehensive approach that includes all parties concerned with international transportation with an eye on developing the entire country. Moreover, customs must also work based on such a broader perspective.

Chapter 5

Tax Staff Training

5. Tax Staff Training

5.1 Historical Background, Development and Tax Staff Training in GDNT

Following is a chronological review of tax staff training that has been conducted at the GDNT.

1993

A training program with the objective of enhancing the specialization level of the tax staff was planned and based on the decision reached on September 24, 1993, a training center was established with 2 personnel staff being posted at the center for training.

The first training program was aimed at increasing the bookkeeping knowledge of the tax staff and a total of 150 staff in Ulaanbaatar attended the session. This number represented, at that time, 15% of all staff.

Programs for overseas training were also implemented and, under these programs, about 30 management staff and tax examiners were sent to the United States, Australia, Germany, Turkey, Japan, Taiwan and South Korea.

1994

Discussions were held with the state central administrative institutions that are responsible for educational issues and based on the finance from the State Educational Fund, 50 staff members from different regions were enrolled into Mongol National University, Mandaf University and Fiscal Economy University. In addition, measures were taken to enable 90 tax staff in central and regional taxing institutions to enroll in correspondence courses and night courses from the aforementioned universities while remaining on their jobs. Through these steps, personnel with a high degree of specialization were secured for the taxing institutions and this played a significant role.

Next, with the cooperation of the 2 personnel staff at the training center and staff from other bureaus in the GDNT, a 72-hour training program comprised of 28 courses was implemented targeting 806 examiners in all of the prefectures and soms. During these training sessions, the level of specialization of the staff in the regions was certified and new qualifications were conferred on 68 staff, thus the measures taken to enhance the level of specialization proved effective.

In addition, opportunities for overseas training were also aggressively pursued. For example, under the finance by international agencies, a total of 22 personnel staff participated in seminars, meetings and conferences held in Turkey, Australia, Denmark, Hungary and

Taiwan and, further with GDNT's own funds, close to 40 staff, of which 67% were regional tax staff, were sent to Russia and China.

In addition, as the texts used were in foreign languages, in the same fiscal year, 28 tax staff were provided with an opportunity of taking special English courses. As a result, this facilitated overseas training.

With respect to training facilities, a remodeling of the training center was undertaken and a classroom with a capacity for 30 students was established.

1995

Through international agencies, 4 specialists were invited from overseas to attend seminars and to provide guidance for the tax staff. About 30 tax staff were also sent to participate in tax training in Turkey.

1996

As the need for specialization and retraining of tax staff based on the International Accounting Standards arose, examiners were selected from among qualified tax staff working in the central and regional taxing institutions, and a training session was held in Ulaanbaatar to develop instructors to train regional staff in International Accounting Standards. The staff who received the training implemented, in addition to also performing his/her regular duties, training programs for International Accounting Standards to tax staff in their respective jurisdictional districts and regions.

1997-1998

Certification examinations to confer the qualification to tax staff were implemented in 1997 targeting a total of 1,000 tax staff. From this point, classification of training into introductory, intermediate and advanced level was initiated and through today, training programs under these classifications are being conducted.

The introductory training is intended for new recruits with education in fields other than Economics and who have not received training. Intermediate training is a course intended for personnel who have already completed the introductory training. Advanced training is for management and senior staff. At the same time, from 1999, education specific to each area of specialty was initiated. For example, a seminar was held for tax officers who are in charge of public relations.

2000 - 2002

In 2001, 350 tax officers received the introductory training and since that time 30 new recruits have been receiving the introductory training annually. Intermediate training was begun in 2002 and in the first two years, 480 tax examiners and 30 personnel staff who had completed introductory training were given intermediate training. In 2001, an advanced training was given to 40 management staff and in 2003, advanced training is planned to be given to the same number.

From 2001, accounting training was provided targeting tax examiners under which 120 staff participated and 63 had obtained accountant qualifications. However, there is a need to provide accounting training to all examiners. Unfortunately, funds for training are insufficient.

With respect to introductory and intermediate training in the regions, all tax staff in Aimag are assembled at the Aimag Center and one or two instructors from the Training Center are dispatched to conduct a 2-week training program. In 2001, 370 staff received introductory training in Bayan-Ulgii, Zavhan, Gobi-Altai, Sukhbaatar, Bulgan, Darkhan-Uul, Uvurhangai, Dundgobi, and Uvs prefectures.

In 2002, intermediate training was conducted for 180 staff in Umnugobi, Selenge, Bulgan, Orkhon, Arkhangai, and Hentii prefectures. Training programs in the regions are not held periodically due to the lack of funds. Instead, they are held once every two or three years. Needless to say, this cannot be said to be an assured way in which to enhance the tax staff's level of specialization within a short period of time.

5.2 Tax Staff Training

In addition to character and judgment, which qualities go without saying, it is necessary for tax officials to possess specialized knowledge and technical skills, as well as the ability to apply such skills that are required in tax administration.

Today, the Training Information Center provides training regarding tax affairs to the tax officials in order to achieve such objectives; however, it can hardly be considered adequate and producing the desired results. Training for the tax officials must be implemented with the necessary contents in an efficient, systematic and planned manner.

5.2.1. Tax Administrations Training Program Scheduled for 2001 - 2004

Table.5-1 Tax Administrations Training Program Scheduled for 2001 - 2004

Responsible Agency	Training Summary	NO	Training Subject	Target Job Titles	# of Target Trainees for 2001	# of Target Trainees for 2002	# of Target Trainees for 2003	# of Target Trainees for 2004
GDNT	Special Overseas Training	1	Training by OECD in training center located in Ankara, Turkey	Managerial staff, Examiners	27	According to the plan for the year	According to the plan for the year	According to the plan for the year
		2	Training by OECD in Chonan Training Center in Korea	Managerial staff, Examiners	4	According to the plan for the year	According to the plan for the year	According to the plan for the year
		3	Software training provided in Thailand	Program engineers, Operators	8			
		4	Post graduate studies in Russia (PhD)	Examiners	1			
		5	Masters Degree Program	Examiners	3			
		6	Training related to international tax issues	Examiners	2			
		7	Legal Training	Managerial staff, Examiners	2			
	Specialized Domestic Training	8	Training regarding state administration at the Administration Academy	Managerial staff Examiners	2	2		
		9	Acquisition of Bachelor of Laws degree	Managerial staff	15			

Responsible Agency	Training Summary		No	Training Subject	Target Job Titles	# of Target Trainees for 2001	# of Target Trainees for 2002	# of Target Trainees for 2003	# of Target Trainees for 2004
Training and Information Center	Basic Training	Introduction	10	Taxation laws, International accounting standards	Examiners	350	30	30	30
		Intermediate	11	Taxation, Tax collection, Tax examination	Examiners		15* 480**	15* 480**	30
		Advanced	12	State administration, Tax policy (in cooperation with Administrative Academy)	Managerial staff	40		40	
	Training in Specialization		13	International taxation and Double Taxation Treaties	Examiners, Div. & Dept. Managers	30	30	30	30
			14	Special tax examination	Examiners	35			35
			15	Computerized processing of corporate tax data	Examiners, Div. mangers, Operators		30	30	30
			16	Tax agency registration report	Managerial staff		30		30
			17	Computerized processing of tax related information	Operators, Examiners		15	15	15
			18	Ethics for examiners	Examiners		60	60	60
			19	Tax Investigation	Examiners		30	30	30
			20	Resolution of tax disputes	Examiners		30	30	30
	Special Training		21	Development of Certified Public Accountants	Managerial staff, Examiners	60	30	30	30
			22	Introductory English course	Managerial staff, Examiners	60	30	30	30
			23	Intermediate English course	Managerial staff, Examiners	60	30	30	30
			24	Advanced English course	Managerial staff, Examiners		15	15	20
			25	Computer Training course	Managerial staff, Examiners		40	40	60

		26	Official Document Archives	Managerial staff, Examiners		20	20	20
	Training Provided at a Fee	27	Development of Tax Accountants	Taxpayers	30	30	30	30
		28	Development of Tax Consultants	Taxpayers		40	40	40
		29	Accounting, Tax Report, Taxation	Taxpayers		30	30	30
		30	Securities, Accounting, Taxation	Taxpayers		20	20	20
		31	Accounting and Taxation relating to foreign currency	Taxpayers		20	20	20
		32	Accounting	Taxpayers		30	30	30
		33	Preparation of tax returns and supporting documents	Taxpayers		30	30	30

* Number of participants from AIMAG

** Number of participants from the districts

5.2.2 Curriculum for Each Basic Training Component

(1) Basic Training (Introductory Level)

① Training Subject : Tax laws
International Accounting Standards

② Objectives : Each tax examiners gaining understanding of tax laws and essence of International Accounting Standards, and acquire its application skills and provide them with tax theory and practical application knowledge

③ Training Period : 18 Days

Table.5-2 Curriculum for Tax laws and International Accounting Standards

No	Subject	Hours
1.	Composition of Accounting, Generally Accepted Principles	6
2.	Accounting steps	6
3.	Balance Sheet	6
4.	Record of Money	2
5.	Time Value of Money	2
6.	Short-term Investment Records	2
7.	Receipt Records	4
8.	Recording of Merchandise and Valuables	4
9.	Advance Payments	1
10.	Record of Fixed Assets	4
11.	Record of Intangible Assets	2

12.	Record of Long-term Investments	2
13.	Record of Liabilities and Payments	4
14.	Record of Capital	4
15.	Record of Income	4
16.	Record of Expenditures	4
17.	Items of Special Qualities	1
18.	Record of Rentals	2
19.	Tax Accounting	2
20.	Preparation of Balance Sheet	1
21.	Preparation of Outstanding Balances Table (ST-1)	2
22.	Preparation of Income Returns (ST-2)	2
23.	Preparation of Report of changes in Assets	1
24.	Cash Flow Statement	2
25.	Financial Statement Analysis	4
26.	Judging Balance Sheets	2
27.	Monitoring Examination	8
28.	International Accounting Standards (Cumulative Hours)	84
29.	Tax Theory and Methodology	4
30.	Contents and Essence of General Tax Law	2
31.	Contents and Essence of Corporate Income Tax Law	2
32.	Content and Essence of Individual Income Tax Law	2
33.	Content and Essence of Value Added Tax Law	2
34.	Content and Essence of Special Tax Law	1
35.	Content and Essence of Real Estate Tax Law	1
36.	Content and Essence of Laws Relating to Land Utilization Fees	1
37.	Content and Essence of Stamp Tax Law	1
38.	Content and Essence of Examinations of Taxation, Tax Payments	2
39.	Other Laws (Cumulative Hours)	4
40.	Monitoring Examination	2
41.	Tax Laws (Cumulative Hours)	24

(2) Basic Training (Intermediate Level)

① Study Subject : Collection Strategies
② Training Objectives : Enhancement of knowledge and specialization focusing upon tax collection
③ Utilized Materials : Data relating to national assembly. Government, policies and decisions of the GDNT, materials and data from ADB and other seminars sponsored by international agencies
④ Training Period : 4 Days

Table.5-3 Curriculum for Collection Strategies

No	Subject	Hours
1.	Status of Mongolian State Tax Collection, Issues Relating to Execution of Laws	2
2.	Taxpayer Registration and Administration	2
3.	Basic Strategies for Registration	2
4.	Information Required for Registration	2
5.	Self-Assessment System	1
6.	Obligation for Tax Reporting and Payment	1
7.	Accurate Reporting	2
8.	Indirect Method of Taxation	2
9.	Summary of Tax Collection	2
10	Principles of Tax Collection	1
11	Requirements for Effective Tax Collection	1
12	Forcible Tax Collection	2
13	Summary of Penalties	1
14	Types of Penalties	1
15	Application of Penalties	1
16	Relevancy of Penalties	1
17	International Taxation Issues	1
18	Methodologies for Evasion of International Taxation	2
19	Transfer of Profits Overseas	1

(3) Basic Training (Intermediate Level)

① Training Subject :Tax Examination
② Training Objectives: Acquisition of direct and indirect tax examination methodologies
③ Training Period : 8 Days

Table.5-4 Curriculum for Tax Examination

No	Subject	Hours
1	Tax Examination and Principles of Tax Examination	2
2	Methodologies for Selection of Tax Examination Targets	2
3	Direct Examination Method, How to Use Detailed Statements in Examinations	2
4	How to Use General Accounts in Examinations	2
5	How to Use Asset Accounts in Examinations	2
6	How to Use Expense Accounts in Examinations	2
7	How to Use Cash Account in Examinations	2
8	How to Use Profit and Loss Accounts in Examinations	2
9	How to Use Financing Accounts in Examinations	2
10	How to Use the Balance Sheet in Examinations	4
11	Indirect Examination Method, Economic Ratio Analysis Method	4
12	Economy Module	4
13	Indirect Method of Taxation	4
14	Method of Estimating Income from Living Standards	4
15	Considerations for Examinations relating to Field Specific Characteristics	4
16	Preparation of Inspector's Report, Supplementary materials, Commentary on the Decision, Dealing with Complaints	2
17	Monitoring Examination	4

5.3 Enhancement of Taxpayer Awareness

GDNT has established 'Taxpayer day' at 1996. This was the start of taxpayer service for enhancing awareness. GDNT had seminars for taxpayer and answered questions for them. From 2000 GDNT started to hold 'Taxpayer Week'. This is held at every 2nd week of May. This 'Taxpayer Week' achieved an important role for improving

taxpayers' awareness.

At present if the certain number of corporate entity asks to GDNT to have a seminar regarding the latest information of tax law amendments, GDNT will have a seminar for them.

GDNT examines not only targeting jurisdictional taxpayers awareness, but also targeting the entire citizen for the preparation of tax education system. It will necessary to implement tax education in elementary, middle and high schools with instilling tax awareness according to their age. In addition GDNT plans to development of curricula for the adults to enlighten them through the corresponding education

In realizing these plans, preparation of materials for taxpayer and improvement of education technique of GDNT will be demanded.

5.4 Future Project Draft

5.4.1 Background of the Project

(1) Development of Human Resources in the GDNT

The Study on the Support for the Economic Transition and Development in Mongolia (Phases I and II of the Enhancement of Tax Collection) initiated in 1998 have led to enhancements in the tax collection functions in Mongolia contributing to the increase in revenues.

In the above study, technology transfers were performed through means including holding seminars. However, in an environment in which the economic activities are becoming ever more complex, for the tax staff to appropriately respond, acquisition of requisite skills and expertise cannot be achieved adequately simply through such seminars. And in the future the tax staff must, through their own efforts, needs to take measures to keep pace with the changing economy in terms of tax collection methods and capabilities. To achieve this, it is necessary to transform the training into a well-organized system. In other words, the necessary contents must be ordered systematically and efficiently n such a way that it can be implemented in a deliberate manner. Only by realizing this, can the capabilities of the GDNT staff be made to respond to the changes anticipated in the future.

(2) Wide Acceptance of Tax Accounting

While the tax staff, through training that are focused on its practical aspects, enhances its

expertise through training, enhancement of knowledge of tax accounting among the taxpayers is an issue to be addressed. In today's Mongolia, the large scale enterprises employ accredited staff such as certified public accountants (CPA) to deal with taxation and accounting and in other types of enterprises staff who have acquired accounting degrees from universities are handling these tasks. However, it can hardly be said that the existing level of capabilities would be sufficient to meet the needs as the economy matures. Even among the GDNT staff, it cannot be said that they necessarily possess sufficient accounting knowledge including bookkeeping.

Further, by enhancing the level of record keeping through the spread of bookkeeping, it not only leads to improved level of reporting, but it also facilitates the interactions between the tax collection side and the taxpayer side. In addition, it, not only provides benefits in tax reporting, but also brings about a common language that can be said to be an infrastructure in the conduct of business and leads to increased inbound investments and business from overseas into Mongolia.

5.4.2 Objectives for the Project

As a long-term objective of this Project, support of the transition to a market economy and development can be identified. By establishing a systematic training program and through technology transfer of expertise required to operate it, Enhancement of the capabilities of the tax staff in their responding to the ever-increasing complexities of the economic activities can be achieved, while at the same time enhanced tax revenues through the enhanced tax collection capabilities can be made possible.

A series of training programs comprising of an "Introductory Course", " Intermediate Course" and "Advanced Course" will be provided. Introductory course will be targeted for the newly recruited staff to instill the basic foundations including awareness necessary as a civil servant and the knowledge and skills required of a tax staff. From among those who have completed the Introductory Course, candidates will be selected based on internal examinations and job performance and a screening examination will be conducted for participants to an "Intermediate Course" which will instill the awareness and capabilities necessary as middle managers. Further, from among those who have completed the Intermediate Course and who have completed a set period of service, based on job performance provide training in "Advanced Course" which will undertake research activities relating to tax theory and tax administration to instill the knowledge and skills required of management staff with the ultimate objective of developing personnel who are able to formulate and present policies. Training materiel appropriate to the level of training at each level will also be developed.

In order to achieve the above objectives, it is imperative that the standards of tax accounting in Mongolia be enhanced and to this end a system of certification of taxation • accounting abilities will be introduced, and its implementation plan and its operation will be proposed.

5.4.3 Project Benefits

Increased revenues will enable the reduction of fiscal deficits and it is expected to lead to the securing of fiscal revenues. In addition, with the enhanced standards of tax accounting in both the public and private sectors, the business foundations can be laid leading to increased foreign investments contributing to the economic development in Mongolia

5.4.4 Project Details

(1) Tax Staff Training

Tax staff generally is required to acquire not only character judgment but also the specialized knowledge necessary in execution of taxation and to possess the ability to apply them in practice. It is extremely important to develop tax staff possessing these abilities. However, the systematic tax staff training system for human resource development existent in the GDNT is inadequate. This also is one of the factors impeding the improvements in the tax capture rate.

Training for the Mongolian tax staff will be conducted nationally at the GDNT Training Center following the training program approved by the GDNT. The Training Center will be staffed by 1 director and 4 instructors as well as 2 tax examiners in charge of public relations • taxpayer services. The Center has been conducting training in some form for all tax staff in Mongolia since its establishment as a training facility, but it will be necessary to further enhance the quality of the training in order to achieve the enhancement of knowledge level of the tax staff.

A. Organizing the Personnel System

In order to realize the fruits of the training that are provided, the training results of each participant must be measured and to those excelling in the training provides rewards such as special salary increases and placement in posts appropriate to his or her capabilities need to be effected. This will make substantial change in the nature of the training. In other words, each staff will become aware of the importance of training and will cultivate a spirit of competition and this will cultivate a desire for self-improvement on the part of

each staff raising the effectiveness of the training.

In addition, of the three-phased training described below, participation in the Intermediate and Advanced Courses will reflected the performance evaluation of the participants.

B. Development of Local Training Systems

Construction work for the training centers in the Hobudo and Donoredono Prefectures has been begun and part of training materiel has been acquired. After completion of these training centers, regional training of the taxation staff will be possible.

In addition, in order to enhance the training content in the regions, with respect to the content of the training in addition to the training that had been provided locally, ability to acquire adequate knowledge locally through the preparation video training materials and other training materiel is necessary. It is also necessary to carry out distant training through correspondence courses.

C. Curriculum Development

Training for the GDNT staff is comprised of training for new recruits (Introductory Training), training for staff with up to 3 years experience (Intermediate level Training) and training for staff with more than 3 years service (Advanced Level Training). However, the criteria for evaluation of the capability level of the participants in the 3 levels of training are not clear. As a result, the content and the curriculum of each course are almost identical with minor differences only in the volume of information provided to the participants of each level.

Tax staff, under the State Civil Servant Law, is a staff of the Mongolian administrative agency and, in principle, all staff are provided conditions enabling them to work long-term until retirement. Therefore, this enables the introduction of training methods that further elevates the staff capabilities that are the results of the accumulation of the fruits of training and job experience. In the case of Mongolia, under the existing laws, the criteria for acceptance as a state civil servants are determined and there is a great preponderance of university graduates among the tax staff. With respect to training of staff who has been recruited after completion of university, it would be efficient to conduct a phased training according to the years of service. Thus, the training that has been categorized into Introductory, Intermediate and Advanced as above is considered effective. However, as indicated above the contents and the curriculum of the above programs are almost identical and only minor differences exist in the volume of information provided to the participants.

Training materiel will be developed for each course level that will create differentiation

in the training contents among the three phases of training to enable conduct of training that is true to the intent of the training.

In addition, in an age where external cooperation and relationships with foreign countries in matters relating to tax is expanding, preparation and implementation of programs for improving the linguistic skills of the tax staff is needed. Considering that the participation of many staff in training and seminars overseas depends on this language training, the quality of the linguistic training should be emphasized. Development of linguistic skills is also a requirement from the perspective of globalization of the economy.

D. Development of Textbooks and Video Training Materiel

In order to enable the acquisition of knowledge for the enhancement of specialist knowledge on a nationwide basis, easily understood training materiel will be developed and video training materiel to enable visual training will be developed.

E. Development of Training Instructors and Policy Proposers

In order to implement an effective training program, an able person to be put in charge of training is required. Further, it will also be necessary to develop researchers who will propose policy relating to taxation.

F. Measurement of Training Results

Rules to properly evaluate whether all training participants satisfy a set standard need to be introduced.

G. Special Training in Japan for GDNT Staff

In order to develop training instructors, necessary training will be provided in Japan to those people who possess the ability to take charge of training.

(2)Raising the National Standards of Tax Accounting and Preparation of Certification System

It is necessary to raise the national standards of tax accounting. As a means to achieve this, an introduction of a certification examination system would be an effective method. To this end, the following summarizes the raising of the state standards for tax accounting and the preparation of a certification system.

a. Analysis of the state and issues of tax accounting education and standards

b. Examination of the possibility of introduction of certification system

c. Formulation of proposal for operational organization for the implementation of the system and implementation guidelines

d. Preparation of a business plan for the operating body

5.4.5 Results

Training materiel relating to tax and accounting

Preparation of tax staff training program

Creation of video training materiel

Examination problems for the tax accounting certification examination

Creation of a certification system for tax accountants

Formulate an operating model of the implementing agency

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