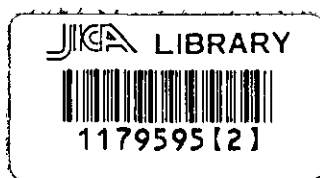


**ESTABLISHMENT OF TAX EDUCATION SYSTEM
IN MONGOLIA**

**FINAL REPORT
(Summary)**



July 2005

**Japan International Cooperation Agency
Institute for Financial Affairs, Inc.**

ED
JR
05-050

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Abbreviations

JICA	Japan International Cooperation Agency
GDNT	General Department of National Taxation
Tg	Togrog

Currency Equivalents

As of June 2005

1,190Tg / USD 1.00

109.11Yen / USD 1.00



PREFACE

In response to a request from the Government of Mongolia, the Government of Japan agreed to conduct "The Study on Establishment of Tax Education System" which was implemented by the Japan International Cooperation Agency (JICA).

JICA sent a study team, led by Mr. Yoshinobu Watabe of Institute for Financial Affairs, Inc., and composed of members of Institute for Financial Affairs, Inc. and other organizations, to Mongolia six times from December 2003 to June 2005.

The Team held discussions with the officials concerned in the Government of Mongolia and the General Department of National Taxation, conducted field surveys and implemented a seminar. After returning to Japan, the Team conducted further studies and compiled the final results found in this report.

I hope this report will contribute to establishing a proper and fair taxation system and to securing stable tax revenue for the government of Mongolia, I also hope it enhances the friendly relations between our two countries.

I wish to express my sincere appreciation to the officials concerned in the Government of Mongolia and the General Department of National Taxation for their close cooperation throughout the study.

July 2005

Tadashi Izawa
Vice President
Japan International Cooperation Agency

July 2005

Mr. Tadashi Izawa
Vice President
Japan International Cooperation Agency

Dear Mr. Izawa,

Letter of Transmittal

We are pleased to submit our report entitled "Study on Establishment of Tax Education System 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 six times within the period December 2003 and June 2005. Substantial amount of discussions were held with Mongolian Government and General Department of National Taxation. Study Team undertook concrete and practical technical assistance including formulation of tax staff training program, preparation of curriculum and teaching materials, accredited tax accountant system seminar, preparation of advertisement intended for taxpayers and follow up on previous tax collection related studies and finally prepared this report.

In view of the necessity of establishment of tax education system 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 and the Mongolian office, the Ministry of Foreign Affairs, and the Japanese Embassy in Mongolia. 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,

Yoshinobu Watabe
Team Leader
Study on Establishment of Tax Education System in Mongolia

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1 Study Summary

1.1 Outline and Objective of the Study

1.1.1 Background to the Study

Japan International Cooperation Agency (JICA) has been providing cooperation to General Department of National Taxation (GDNT) since 1998 with the objective of enhancing the country's tax system to increase tax collection, which is the foundation for the Mongolian fiscal policies. The assistance provided by JICA can be broadly categorized into two types: (1) System Design and (2) Preparation of an Information Management System. Category (1) plans for improvements to the organization and structure. With respect to tax collection, identification of items requiring improvements and recommendations for various systems and methods were prepared in Phase 1 and Phase 2. The objective of Category (2) is to strengthen GDNT's inspection capabilities. This will be achieved through the compilation of taxation related information into a database. Technical guidance was provided in establishing the "Third Party Information System." The development and operation resulted in achieving practical results such as improvements in efficiency and uncovering tax evasion. Through the assistance that was provided, the direction for improvements in Mongolia's tax collection system infrastructure was established and the basis for the foundations for information infrastructure for the expanding the tax base can be said to have been put in place.

The above notwithstanding, there is a lack of human resources who are able to utilize these tools. The dearth of specialized tax knowledge and tax accounting capabilities on the part of GDNT staff have resulted in substantial lost opportunities in tax collection. Taking this into consideration, the Mongolian government has requested the assistance to the Japanese government for support in establishing the tax education system to strengthen the tax collection capability. Based on this request, JICA conducted a preliminary study in August 2003 and exchanged with the government of Mongolia the Scope of Work. The Scope of Work defines the framework for the study thus leading to the decision for the initiation of the study.

1.1.2 Study Objective

The objective of the Study is to create the foundation for the GDNT tax staff education system in order to secure tax revenues over the long term, expand the tax collection base and reduce the inequalities leading to the reduction to the tax rates. In addition, in order to address the immediate issues, undertake monitoring of the state of recommendations and technical guidance provided heretofore through the JICA Study for the Enhancement of Tax Collection and promote the implementation of measures that are thought to be effective (Component B). In order to achieve these objectives, the following items need to be satisfied.

Component A

Designing and Preparation of Tax Education System

- (i) Joint establishment of and consensus on a long term vision that span 15 years and a plan for a creation of a tax education system based on a short term action plan that will have a 3 year horizon
- (ii) Joint development of and consensus on a tax staff education curriculum
- (iii) Joint development of basic text relating to practical execution for each tax classification such as corporate income tax, individual income tax, value added tax, other taxes, taxation and tax collection, tax accounting.
- (iv) Development of training center faculty and GDNT prospective management staff

Component B

Monitoring and Support of the Progress of Proposals

made by JICA Tax Collection Enhancement studies

- (i) Promotion of efficient and effective utilization of the Third Party Information System prepared in the prior Phase
- (ii) Plans for improving taxpayer public information, service and tax education
- (iii) Presentation of operational plan of the Tax Accountant System has been enacted into law
- (iv) Recommendations for the establishment or improvement of the various systems that had been recommended in previous Phases such as Statutory Receipt System, Taxpayer Registration.

1.2 Study Items

1.2.1 Component A

Design and Preparation of the Tax Education System

Year 1

Domestic Preparatory Tasks

(1) Collection and Compilation of Related Data and Information

Materials that had been collected during the previously implemented development studies, “Study on Support for Economic Transition and Development in Mongolia”, “Study on Support for Economic Development in Mongolia (Tax Collection Enhancement Phase II)”, and “Development of Taxpayer Information System”, were sorted and analyzed. In addition, other available information was also collected and sorted and preparatory examinations were carried out with respect to the scope of the study, details, methodologies, processes and the methods to be used for transfer of technology.

(2) Preparation of Inception Report

An Inception Report was prepared containing the basic policies for the study and the study implementation plan.

Initial Field Study

(1) Explanation and Discussion of Inception Report

Using the Inception Report as the base, discussions were held with the Mongolian counterparts regarding how to proceed with the study.

(2) Establishment of Implementation Organization

The implementation organization was established upon confirming the cooperation structure of the GDNT, which is the counterpart organ for the study. A joint tasking organization in which there is at least one counterpart to each study team member was established. The objective was to develop the capabilities of the counterpart staff, through performing of tasks, to a level where it would be possible to take on the role of instructor.

(3) Identification of the Current State of the Tax Education System

The current state of the following items was identified:

Training System (Instructors, trainees, state of operations, facilities)

Personnel system

Training budget and location of relevant authority

Future tax staff education plans in the GDNT

(4) Identification of the Current State of the Tax Staff Education Curriculum

A study was conducted on the degree of execution of the introductory training 80-hour curriculum and the intermediate-level training 112-hour curriculum in 2003.

(5) Collection and Sorting of Tax Laws and Directives and Text

Updated tax laws and directives, which became the basis of the text, were collected. Particular emphasis was placed on corporate tax, income tax, value added tax and accounting, which was the priority. The existing text was reviewed.

(6) Examination of Preferred Preparation of Text

Discussions were held in order to reach a consensus on how the text should be prepared. The direction of introductory text preparation, which was implemented in the domestic tasks in FY2003, would also be determined.

First Domestic Tasks

(1) Instructions on the Method of Text Material Preparation and Unification of Terminologies

The direction of text preparation discussed in Mongolia between the study team and Mongolian counterpart was provided to the staff responsible for the text preparation in Japan. At the same time, tax laws and directives that had been collected and translated were distributed to the study team members and the background was explained. At this time, awareness of particular commercial practices and unification of terminologies was reinforced.

(2) Preparation of Draft Introductory Text

Drafts of the introductory-level text for each of corporate tax, income tax, and value added tax,

other tax, taxation and collection, tax audit, and tax accounting were prepared. In order to ensure consistency, multiple meetings were held depending upon the rate of progress.

Second Field Study

(1) Guidance on Translation of Introductory Material

To avoid any problems with the text as a result of mistranslation, guidance was given in translation tasks paying particular attention to terminologies.

(2) Discussions on Themes for Experimental Classes Using Introductory Basic Text

The theme for the experimental classes was selected together with the Mongolian counterparts and the program structure was established. The decision also took into consideration the period, and the timing and implementation was focused on high-priority items.

Year 2

Third Field Study

(1) On-site Study of Regional Training Centers

Study visits to both the Khovd and Dornod Regional Training Centers were conducted to confirm the usage, facilities, and the like.

(2) Joint Preparation of Introductory Text

Discussions were held with the Mongolian counterparts to ensure that the material content was relevant to the situation in Mongolia. Amendment and improvement tasks were jointly performed and the text was revised.

(3) Implementation of Introductory Experimental Classes

Using the amended text, the Mongolian counterpart held experimental classes for the tax staff.

(4) Verification and Amendment of Text Using the Introductory Experimental Classes and Explanation of Instructional Focus

Based on the results of the experimental classes, improvements were made to the text such as in areas that were difficult to understand. At the same time, the focus points in instructing the text were explained to the counterparts.

(5) Review of Staff Education Curriculum and Discussion on the Contents of the Advanced Training

The current curriculum was analyzed using the results from the field studies and a plan for the curriculum was created based upon identification of the level of knowledge and expertise of the staff and the curriculum requirements. Discussions were held with counterparts and the joint task of compilation was undertaken. Based on the results, a decision was made to place emphasis on the Introductory and Intermediate courses in the Basic Training Curriculum. Discussions on the Advanced Training centered on the direction for implementing the course to management and on executive training.

(6) Examination of the Policy for Preparation of Intermediate Text

The policy for the preparation of intermediate-level text, which was carried out in the third domestic tasks, was discussed with the Mongolian counterparts.

(7) Examination of Experimental Class Program Using Intermediate-Level Text

A program to conduct experimental classes using intermediate-level text was discussed and examined with the Mongolian counterparts.

(8) Preparation, Presentation and Discussion of the Progress Report

The results of the study on the status and the introductory teaching materials were compiled and a progress report was prepared, based upon which discussions were held and consensus was reached. Examination was made of the selection of training candidates and in the follow-up to a previous study, it was confirmed that a tax accountant system would be taken up.

Second Domestic Tasks

(1) Preparation of Draft Intermediate-Level Text

A draft was prepared of intermediate-level text covering each of corporate tax, income tax, value added tax, other taxes, tax and collection, tax audit and tax accounting. Preparation was based on the results of experimental classes conducted using the introductory text. In order to secure consistency, multiple meetings were held depending upon the rate of progress.

(2) Response to Questions Relating to the Draft Intermediate-Level Material

After completion of translation into Mongolian, the draft was delivered to the Mongolian counterpart for examination, and responses were provided for any questions raised.

Fourth Field Study

(1) Formulation of Short-Term Action Plan

Based on the study results, a short-term action plan was put together. The following items were included:

(2) Re-examination of Staff Education Curriculum

At the point of having completed preparation of intermediate-level text, re-examination was carried out and discussions were held with the Mongolian counterparts.

(3) Joint Preparation of Intermediate-Level Text

Discussions were held with the Mongolian counterparts to ensure that the text contents were relevant to the situation in Mongolia. Amendment and improvement tasks were jointly performed.

(4) Implementation of Intermediate-Level Experimental Class

Using the amended text, the Mongolian counterparts held experimental classes for the tax staff.

(5) Verification and Amendment of Text Using the Intermediate Experimental Classes and Explanation of Instructional Points

Based on the results of the experimental classes, improvements were made to the text such as in areas that were difficult to understand. At the same time, the focus points in instructing the text were explained to the counterparts.

(6) Examination of Policies for Preparation of Advanced-Level Text

The policies for preparing a draft of the advanced-level text were discussed with the Mongolian counterparts.

(7) Examination of Advanced-Level Experimental Class Program

Experimental classes using advanced-level text was discussed and examined with the Mongolian counterparts.

Third Domestic Tasks

(1) Preparation of Basic Teaching Materials for the Advanced Course

Basic teaching materials for the advanced class were prepared. Based on examinations made jointly with the GDNT, it was decided that the contents would include international taxation, taxation relating to international trade, tax dispute system and taxation theory.

(2) Response to Questions Raised Regarding the Draft

After completion of translation into Mongolian, the draft was delivered to the Mongolian counterparts for examination, and responses were provided for any questions raised.

Fifth Field Study

(1) Preparation, Presentation and Discussions of the Interim Report

Along with the intermediate-level text, the study results were collected and an Interim Report was prepared. Presentations and discussions were held with the Mongolian side based on the Interim Report.

(2) Tax Education System Formulation Plan: Long-Term Vision

Based upon the study results, a Long-Term Vision was formulated for 12 years after the Short-Term Action Plan.

(3) Joint Preparation of Advanced-Level Text

Discussions were held with the Mongolian counterparts to ensure that the text contents were relevant to the situation in Mongolia. Amendments and improvements were jointly performed to prepare the text.

(4) Experimental Classes Using Advanced-Level Text

The Mongolian counterparts implemented experimental classes for the tax staff using the text.

(5) Verification and Amendment of Text Using the Advanced-Level Experimental Classes and

Explanation of Instructional Points

Based on the results of the experimental classes, improvements were made to the text such as in areas that were difficult to understand.

Year 3

Fourth Domestic Tasks

(1) Preparation of Draft Final Report

The results to date were compiled in a report and text was added as needed.

Sixth Field Study

(1) Presentation and Discussion of the Draft Final Report

A presentation was made to the Mongolian side regarding the Draft Final Report and discussions were held.

Fifth Domestic Tasks

(1) Preparation of Final Report

The amendments to the Draft Final Report were reflected in the Final Report.

Task Flow (Component A)

Task Flow (Com)	Fiscal 2003							Fiscal 2004							Fiscal 2005								
	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7		
Domestic Preparatory Tasks																							
(1) Collection and Compilation of Related Data and Information	□																						
(2) Preparation of the Inception Report	□																						
Initial Field Study																							
(1) Explanation and Discussion of the Inception Report	■																						
(2) Establishment of Implementation Organization	■																						
(3) Identification of the Current State of the Tax Education System	■																						
(4) Identification of the Current State of the Tax Staff Education Curriculum	■																						
(5) Collection and Sorting of Tax Laws, Directives and Text	■																						
(6) Examination of Preferred Preparation of Text	■																						
First Domestic Tasks																							
(1) Instructions on the Method of Text Material Preparation and Confirmation of Data to Be Collected and Unification of Terminologies			□	□																			
(2) Preparation of Draft Introductory Text				□	□																		
Second Field Study																							
(1) Guidance on Translation of Introductory Material					■																		
(2) Discussions on Themes for Experimental Classes Using Introductory Basic Text					■																		
Third Field Study																							
(1) On-site Study of Regional Training Centers																							
(2) Joint Preparation of Introductory Text																							
(3) Implementation of Introductory Experimental Classes																							
(4) Verification and Amendment of Text Using the Introductory Experimental Classes and Explanation of Instructional Focus																							
(5) Review of Curriculum and Discussion of the Contents of Advanced-Level Training																							
(6) Examination of the Policy for Preparation of Intermediate Text																							
(7) Examination of Experimental Class Program Using Intermediate-Level Text																							
(8) Preparation, Presentation and Discussion of Progress Report																							
Second Domestic Tasks																							
(1) Preparation of Draft Intermediate-Level Text																							
(2) Response to Questions Relating to Draft Intermediate-Level Material																							
Fourth Field Study																							
(1) Formulation of Short-Term Action Plan																							
(2) Re-examination of Staff Education Curriculum																							
(3) Joint Preparation of Intermediate Level Text																							
(4) Implementation of Intermediate Level Experimental Class																							
(5) Verification and Amendment of Text Using the Intermediate Experimental Classes and Explanation of Instructional Focus																							
(6) Examination of Policies for Preparation of Advanced-Level Text																							
(7) Examination of Advanced-Level Experimental Class Program																							
Third Domestic Tasks																							
(1) Preparation of Advanced-Level Text																							
(2) Response to Questions Raised Regarding Draft																							
Fifth Field Study																							
(1) Preparation, Presentation and Discussion of Interim Report																							
(2) Tax Education System Formulation Plan: Long-Term Vision																							
(3) Joint Preparation of Advanced-Level Text																							
(4) Experimental Classes Using Advanced-Level Text																							
(5) Verification and Amendment of Text Using the Advanced-Level Experimental Classes and Explanation of Instructional Focus																							
Fourth Domestic Tasks																							
(1) Preparation of Draft Final Report																							
Sixth Field Study																							
(1) Presentation and Discussion of Draft Final Report																							
Fifth Domestic Tasks																							
(1) Preparation of Final Report																							
Time of Submission of Final Report																							

Legend ■ Field Study □ Domestic Study

1.2.2 Component B

Monitoring and Support of Progress of Proposals Made by JICA Tax Collection Enhancement Studies

Year 1

Domestic Preparatory Tasks

- (1) Collection and sorting of related data and information
- (2) Preparation of Inception Report

Common with Component A

Initial Field Study

- (1) Presentation and discussion on the Inception Report

- (2) Establishment of Implementation Organization

Common with Component A

- (3) Support for Country Focused Training

Support was provided for Country Focused Training, which was implemented in Japan in January 2004.

- (4) Identification of the State of the Third-Party Information System

The state of usage of the Third-Party Information System was identified.

- (5) Identification of Status of Taxpayer Public Relations and Services and Tax Education

In the area of taxpayer public relations, the state of public relations activities and GDNT's public relations measures and plans was identified. In the area of taxpayer services, the state of the One-Stop Service Centers was identified. With respect to tax education, the philosophy held by the GDNT as well as that of the Ministry of Education was examined.

- (6) Identification of the State of the Tax Accountant System

The state of the tax accountant system in Mongolia was studied. Firstly, the 25 tax accountants' activities and the certification process were grasped. The demand for tax accountants was

studied.

(7) Identification of the State of Prior Recommendations

The state of implementation of prior recommendations such as the Statutory Receipt System, the Preferred Self-Assessment System and others was examined.

(8) Identification of Effective Public Relations Measures

Public relations measures that would be effective in Mongolia were identified.

First Domestic Tasks

(1) Analysis of Issues Relating to the Third-Party Information System

Based on the results, examination was conducted on whether the issues were results related to execution, results from computer system processing or results from equipment or hardware.

(2) Extraction of Issues of Taxpayer Public Relations, Services, and Tax Education

With respect to public relations and services, based on the results of local study, the issues were extracted and examined keeping in mind an image of the desired state and measures that would be practical. With respect to tax education, the types of measures that would be appropriate in Mongolia were examined.

(3) Extraction of Issues Relating to the Tax Accountant System

Based on the above local study, the issues were identified.

(4) Examination of Critical Items of Prior Recommendations

Based on the results of the First Field Study, examination was made on which items to address, how to address them, and which items could be implemented.

Second Field Study

(1) Supplementary Study of Component B

A supplementary study was conducted with respect to Component B. During this phase, the differences existing between the tax accountancy system and particularly the certified public accountant system were studied.

Year 2

Third Field Study

(1) Presentation of Plan for Improvements to the Third-Party Information System

Based on the identified state of affairs, a plan for improvement was prepared and submitted to the GDNT.

(2) Presentation of Measures for Taxpayer Public Relations, Services, and Tax Education

Based on examples including that of Japan, the desired state of tax education in Mongolia was presented. In taxpayer public relations, improvements to the One-Stop Service Center were also examined

(3) Presentation of Framework for Penetration of the Tax Accountant System

After considering the demand for tax accountants, a framework for the certification system for tax accountants in Mongolia was presented. Included was the summary plan for implementation guidelines for the creation of the organization for operating the certification system.

(4) Priority Confirmation Tasks of Prior Recommendations

Further studies were performed as to the practicability of the system.

(5) Preparation, Presentation and Discussion of the Progress Report

Common with Component A

Fourth Field Study

(1) Guidance on Specific Plans for Improvements for the Third-Party Information System

The presented plan for improvements was discussed and its implementation was supported to the extent possible.

(2) Sample Tax Education Materials

Text for tax education in Mongolia was created and provided.

(3) Recommendations for Disseminating the Tax Accountancy System

Based on the framework of the former field study, recommendations were made for measures to

disseminate the tax accountancy system in Mongolia.

(4) Workshops Based on Previous JICA Recommendations

Workshops were implemented relating to recommendations that had been made prior to the previous phase. Tax Accountant System was selected as the topic.

(5) Preparation of Taxpayer Public Relations Commercial, Project Public Relations Video, and Pamphlets

The draft plans for taxpayer public relations commercial, project public relations video and pamphlets were created.

Third Domestic Tasks

(1) Creation of Scenario for Taxpayer Public Relations Tools

Scenarios for taxpayer public relations and project public relation video were created. Draft pamphlets were also prepared.

Fifth Field Study

(1) Preparation, Presentation and Discussion of Interim Report

The results of the study were compiled and an Interim Report was prepared and presented to the Mongolian government after which discussions were held.

(2) Completion of Taxpayer Public Relations Commercial, Project Public Relations Video, and Pamphlets

Pamphlets to be used in public relations were completed. Arrangements were made for taxpayer public relations commercial. Location and scenario and rehearsals were held and the filming was undertaken. Project public relations video was also progressing in parallel

Year 3

Fourth Domestic Tasks

(1) Preparation of Draft Final Report

Sixth Field Study

(1) Presentation and Discussion of Draft Final Report

Fifth Domestic Tasks

(1) Preparation of Final Report

The above is common with Component A.

Task Flow (Component B)

Task Items	Fiscal 2003		Fiscal 2004										Fiscal 2005								
	11	12	1	2	3	4	5	6	7	8	9	10	11	12	1	2	3	4	5	6	7
Domestic Preparatory Tasks																					
(1) Collection and Compilation of Related Data and Information	□																				
(2) Preparation of Inception Report	□																				
Initial Field Study																					
(1) Presentation and Discussion of Inception Report	■																				
(2) Establishment of Implementation Organization	■																				
(3) Support for Country Focused Training	■																				
(4) Identification of the State of the Third-Party Information System	■																				
(5) Identification of the State of the Tax Accountancy System	■																				
(6) Identification of the State of Prior Recommendations	■																				
(7) Identification of the Status of Taxpayer Public Relations, Services and Tax Education	■																				
(8) Identification of Effective Public Relations Measures	■																				
First Domestic Tasks																					
(1) Analysis of Issues Relating to the Third-Party Information System			□																		
(2) Extraction of Issues Relating to Taxpayer Public Relations, Services, and Tax Education			□																		
(3) Extraction of Issues Relating to the Tax Accountancy System			□																		
(4) Examination of Critical Items of Prior Recommendations			□																		
Second Field Study																					
(1) Supplementary Study of Component B					■																
Third Field Study																					
(1) Presentation of Plan for Improvements to the Third-Party Information System								■													
(2) Presentation of Measures for Taxpayer Public Relations, Services, and Tax Education								■													
(3) Presentation of Framework for Penetration of the Tax Accountancy System								■													
(4) Priority Confirmation Tasks of Prior Recommendations								■													
(5) Preparation, Presentation and Discussion of Progress Report								■													
Fourth Field Study																					
(1) Guidance on Specific Plans for Improvement of the Third-Party Information System												■									
(2) Sample Tax Education Materials												■									
(3) Recommendations for Dissemination of the Tax Accountancy System												■									
(4) Workshops Based on Previous JICA Recommendations												■									
(5) Draft of Public Relations CM for Taxpayers, Video and Bulletin for Project Promotion												■									
Third Domestic Tasks																					
(1) Draft of Public Relations CM for Taxpayers, Video and Bulletin for Project Promotion																					□
Fifth Field Study																					
(1) Preparation, Presentation and Discussion of Interim Report																					■
(2) Completion of Public Relations CM for Taxpayers, Video and Bulletin for Project Promotion																					■
Fourth Domestic Tasks																					
(1) Preparation of Draft Final Report																					□
Sixth Field Study																					
(1) Presentation and Discussion of Draft Final Report																					■
Fifth Domestic Tasks																					
(1) Preparation of Final Report																					□
Time of Submission of Final Report	Ic/R							P/R						I/R						DE/R	F/R
	△							△						△						△	△

Legend: ■ Field Study □ Domestic Study

1.3 Counterpart Training Summary

1.3.1 Course Summary

Course Name: Japanese Tax Administration and Staff Education System

Training Period: November 24, 2004 (Wednesday) – December 3, 2004 (Friday)

Implementing Organization: Kinzai Institute for Financial Affairs, Inc.

Number of Invitees: 2; Country: Mongolia

Names of Trainees (Age), Nationality, Current Post:

Mr. Mishiglundden Yadmaa (52), Mongolian

Deputy Director General of the GDNT

Ms. Erdenebayar Ragchaadorj (29), Mongolian

State Tax Inspector – Khovd Province Tax Office

1.3.2 Course Objectives and Background

The two trainees were counterparts to the study. In Mongolia, training and personnel are not very effectively coordinated and in order to improve the efficacy of training, linkage between the two was needed. Thus, a training program was implemented with the objective of achieving linkage between personnel and training, in addition to teaching the structure of tax administration in Japan. Gaining familiarity with the Japanese tax account system would serve as reference for the tax accountant system currently under study in Mongolia and would be useful in the dissemination and acceptance of the study results.

1.3.3 Schedule and Summary

November 24 (Wednesday)

Arrival in Tokyo

November 25 (Thursday)

(AM) Briefing Program and Orientation

(PM) Courtesy call on JICA Headquarters

November 26 (Friday)

(AM) Japanese Tax System

Format: Lecture

Objective: Understanding the collection system and the execution organization for state and municipal taxes

Content: Lecture on the Japanese tax collection system. Information included fiscal revenues

and expenditures as well as the principal tax classifications

(PM) Japanese Tax Administration

Format: Lecture

Objective: Lecture on the organization and the execution organization of the Japanese tax administration and provision of reference for tax operation in Mongolia

Contents: 1. Japanese tax office structure and operation

2. Execution organization of tax administration in Mongolia and issues facing the organization

November 27 and 28 (Saturday and Sunday)

November 29 (Monday)

(AM) Courtesy call on Deputy Commissioner, National Tax Agency of Japan

Format: Opinion Exchange

Objective: To strengthen awareness of how to deal with the recent tax administration and staff training from a management perspective through visiting the National Tax Agency in Japan.

Content: Exchange of views with Deputy Commissioner at National Tax Agency

(PM) Visit to the National Tax College

Format: Site visit and lecture

Objective: Visit to the National Tax College to learn how Japanese tax staff is trained

Content: Matters related to the organization and training program of the National Tax College

November 30 (Tuesday)

(AM) Visit to a tax accountant office

Format: Site visit and lecture

Objective: Provision of reference materials for building the tax accountant system in Mongolia through observation of Japanese tax accounting practice

Contents: Matters related to the current conditions of Japanese tax accounting practice

December 1 (Wednesday)

(AM) Japanese tax and fiscal systems

Format: Lecture

Objective: Points of caution in building the Japanese tax and fiscal system and the tax accountant system

Content: Matters related to the tax and fiscal systems in Japan and Japan's tax accountant

system

(PM) Public Relations for Taxpayers in Japan

Format: Lecture

Objective: Learn about the current state of taxpayer directed public relations in Japan and use of this as suggestions for taxpayer directed public relations in Mongolia

Content: Overview of public relations directed toward taxpayers in Japan

December 2 (Thursday)

Evaluation Session and Closing Ceremony

December 3 (Friday)

Journey home

1.3.4 Observations on CP Training

The GDNT has achieved remarkable improvement in tax collection capabilities since the introduction of the development study (Study on Support for Economic Transition and Development in Mongolia 1998–2000), reflecting in part the fruits of development study and Country Focused Training through JICA. Implementation focused on measures such as tax audit techniques and putting in place taxpayer information that produced results within a relatively short time. However, going forward, in order to ensure the appropriate level of tax revenues commensurate with the economic state, the state tax staff will need to implement taxation and tax collection based on a common interpretation of taxation. The staff will need to take the initiative and continue to enhance his or her knowledge and expertise in order to address the new and different issues that will arise with the development of the economy. The development study “Establishment of a Tax Education System”, which was conducted, was a project for such purpose. Therefore, receiving lectures about the staff education conducted in the Japanese tax administration system and actually observing the site, were extremely valuable experiences for the trainees.

Over a decade has passed since Mongolia introduced the tax system and finally, the government agencies have begun to emphasize the relationship with taxpayers. However, the ground is still untested regarding what measures should be taken. Implementation of effective public relations measures and introduction of a tax accountant system to provide a liaison between the taxpayer and the taxing authorities would be very effective under these circumstances. In this training session, only one lecture was given on public relations, but with respect to the tax accountant system, a lecture was coupled with a visit to an actual accountancy office in practice.

1.4 Outline of the Seminar on Tax Accountant System

Date : December 13, 2004

Place : Ulaanbaatar

2 : 00 Opening Speech

L. Zorig

Director General, GDNT

Y. Kanzaki

Resident Representative, JICA Mongolia Office

2 : 30 "Needs for Tax Accountants"

Speaker: Ya. Mishiglunden.

Deputy Director, GDN

3 : 00 "Introduction of Tax Accountant System from the Experience of Japan"

Speaker: S. Wada

Member of JICA Study Team

3 : 30 "Coordination of Services by Certified Public Tax Accountants and Certified Public Accountants"

Speaker: L. Dondog,

PhD in Economics

Chairman, Accounting Policy & Methodology Department, Ministry of Finance

4 : 00 Break

4 : 20 "Issues to be Considered in Preparing Tax Accountant System"

Speaker: Prof. Y. Hirano

Member of JICA Study Team

4 : 50 "Tax Accounting System and Further Perspectives"

Speaker: Dr. G. Altanzaya.

Executive Director, Mongolian and Japanese Association of Tax accounting

5 : 20 Comments on the Seminar

L.Gansukh

Member, Standing Committee on Economic Policy of the State Great Khural

G.Zandanshatar

Member, Standing Committee on Budget of the State Great Khural Chairman

Ch.Ulaan

Deputy Prime Minister

6 : 30 Closing

L. Zorig

Director General, GDNT

2 Summary

2.1 Tax Education System in Mongolia

2.1.1 Training Classification and Status of Implementation

The Phased Education Plan was adopted in 2001, and a training system has gradually been structured. The programs implemented by the Training Center consist of basic training, specialized training and others. Basic training is categorized into introductory, intermediate, and advanced courses according to the relevant stage of training.

(1) Basic Training Program

The objective of the Basic Training Program is to foster ethical standards as tax staff and to ensure that applicants acquire the requisite expertise. Currently, however, the program's main purpose is to obtain professional qualifications and pass the renewal examinations (every other year).

① Introductory Training Course

The Introductory Training Course is provided to newly hired employees just prior to the National Tax Inspectors qualifying examination. The objective of this course is to teach the applicants the basic knowledge required by tax staff focusing on ethics as a public official, tax laws and international accounting standards.

② Intermediate Training Course

This course covers staff in their third to fifth years of employment. Since this coincides with the time that the qualification renewal examination is required, providing the training course just prior to the examination serves to support successful exam results. The training curriculum includes taxation, collection of taxes and tax audit.

③ Advanced Training Course

This training course was given only once for management, covering national administration and tax policies, due to the necessity to give managerial knowledge to new management as soon as possible because of the replacement of the majority of directors of the tax offices after the general election.

(2) Specialized Training

Specifically, the curriculum includes: international taxation, special tax, computer processing of tax-related information, ethics training for inspectors, tax audit, and settlement of tax-related disputes. These are specialized and efficient training programs. However, some of the planned programs have not yet been implemented due to budget constraints and a shortage of instructors.

(3) Other Training Course

This type of training course is not directly related to the operation, but is provided to educate staff about the basic knowledge needed to carry out operations as smoothly as possible. For example, training to acquire sophisticated accounting expertise, English education, and computer skills have been implemented.

2.1.2 Selection of Participants, Level and Effectiveness of Training

(1) Selection of Participants

Newly hired employees must take the Introductory Training Course within one year from the

date of employment. The Intermediate Training Course may be taken by staff preparing for their qualification renewal examination.

(2) Level of Training Course

The level of the Introductory Training Course and that of the Intermediate Training Course held almost solely for the qualification renewal exam were about the same up until 2002. This is an inevitable consequence of the fact that the purpose of both training courses is to pass the National Tax Inspectors examination.

(3) Effectiveness of Training Courses

As the purpose of the Introductory Training Course and the Intermediate Training Course organized for qualification renewal is to successfully pass the examination, the effect of the training is significant. For other training courses, we cannot draw any conclusions about their effectiveness because completion examinations have not been implemented (this type of examination started only recently) and inquiries have been conducted only since about 2002.

2.1.3 Future Training Program

In December 2003, the basic policy on training, "Education Program and Curriculum for National Tax Inspectors" ("New Education Program") was published by the GDNT.

(1) Features of "Education Program and Curriculum for National Tax Inspectors" ("New Education Program")

The Phased Training Program, consisting of "Introductory Training Course", "Intermediate Training Course", and "Advanced Training Course", is now classified into "Introductory Training Course", "Intermediate Training Course", and "Specialized Training Course" in the New Education Program.

The "Specialized Training Course" is divided into "Tax Collection" and "Tax Audit Method" in line with the actual operations. The program covers an extensive range of matters indispensable to each operation, including international accounting standards, financial statements, cost accounting, tax investigation, convention for the avoidance of double taxation, and computer processing of tax-related information, and aims to provide advanced levels of training. Participants are required to have passed the qualification renewal examination for National Tax Inspectors at least once and thus should be staff who have tax operation experience of at least three years as well as satisfactory evaluation of their services.

2.2 Short Term Action Plan

2.2.1 Current Training Program and Short Term Action Plan

Currently, training courses for the tax staff of Mongolia are implemented in accordance with the "Education Program and Curriculum for National Tax Inspectors" (hereinafter referred to as the "New Education Program") approved in December 2003 as a basic training policy for human resource development by the management board of the General Department of National Taxation (GDNT). The Short Term Action Plan is based on this program and has been revised to ensure that it is more systematic and suitable for implementation during 2006-2008.

2.2.2 Proposal to the New Education Program

The Intermediate Training Course is currently being implemented as preparatory training for the qualification renewal examination for National Tax Inspectors in the New Education Program. In the Short Term Action Plan, the study team suggests that it be changed to "Other Training Course" because it has less significance as part of the basic training program (phased

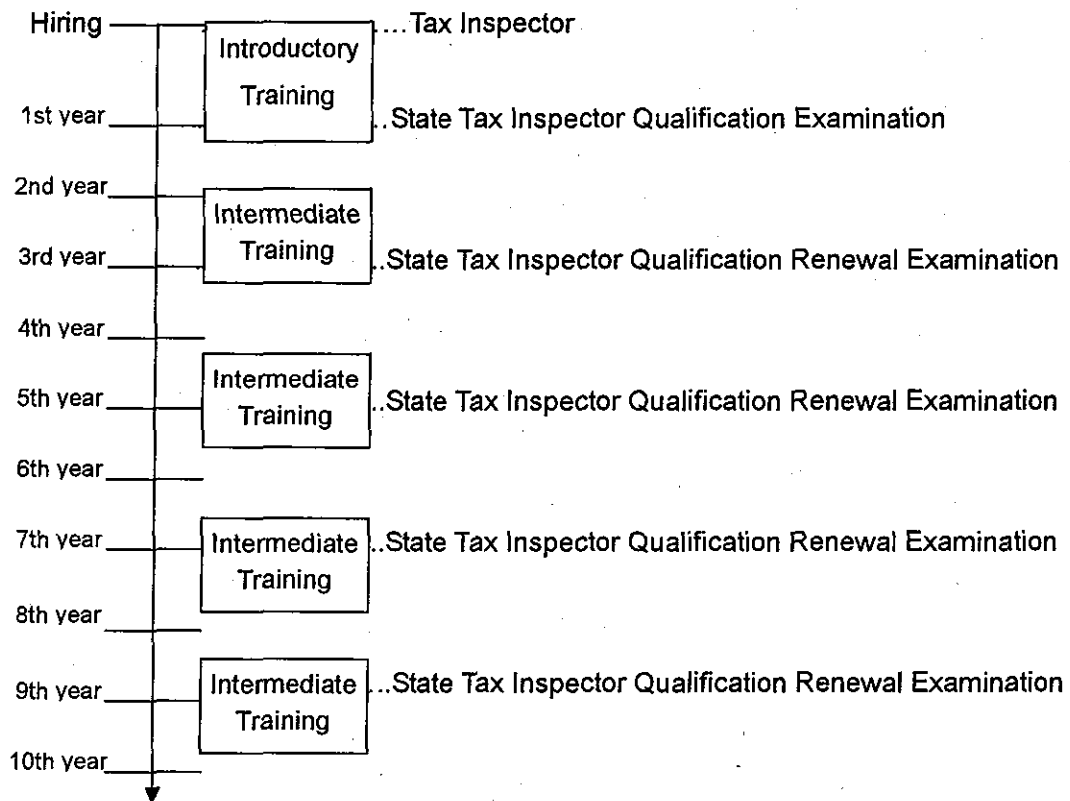
training program). Accordingly, the professional training course of this program should be changed to the Intermediate Training Course by operation area. The Advanced Training Course is composed of two courses, one for staff newly appointed as managers (training course for new management staff) and the other for future leaders of the GDNT and tax offices (senior management development course).

2.2.3 Structure of Training Courses

- ◆ The Basic Training Course (phased training program/long term training program) consists of the “Introductory Training Course” for newly hired employees, “Intermediate Training Course (a) Taxation and Collection; (b) Tax Audit” for staff with 7 to 10 years experience in the GDNT; and the “Advanced Training Course (a) New management staff; (b) Senior management development” for staff with more than 10 years of employment experience.
- ◆ The Specialized Training Course (short term training course) is implemented as needed to cover urgent matters to be addressed by relevant divisions of the GDNT and to enhance skills and expertise in immediately dealing with such issues, such as carrying out a tax audit of excise taxes.
- ◆ The Other Training Course (short term training course) is carried out to educate the staff about basic knowledge to facilitate the smooth performance of their duties. For example, (a) special training to be implemented within the country (preparatory course for qualification renewal exam for National Tax Inspectors) and (b) overseas training course.
- ◆ Distance Training Course (long term training course) is carried out via correspondence courses. Training materials on accounting are sent by mail and in return participants send their self-study results and questions. The answers and exam evaluations are returned by mail.

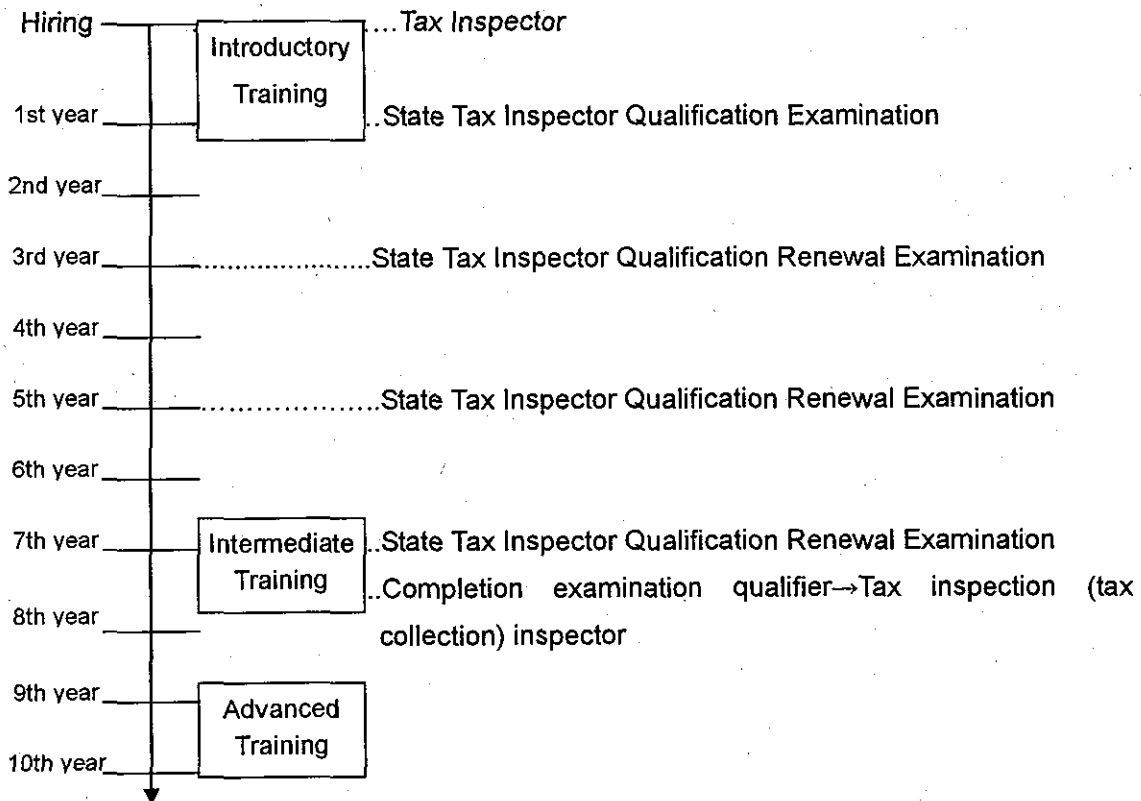
A Schematic of Basic Training <Phased Training>

Table1 The Training system adopted in the past by GDNT



(Note) In the training system adopted in the past by the Mongolian GDNT, Intermediate Training meant preparatory training of qualify in the state tax inspector qualification renewal examination. Therefore, it differs from the Intermediate Training within the phased Basic Training.

Table 2 Basic Training <Phased Training> in the Short Term Action Plan, Long Term Vision



(Note) With respect to “Operational Training” and “Special Training”, they differ from the Basic Training (Phased Training) and are offered while on the post, held as required and, depending upon the type of training, may be taken multiple times.

2.2.4 Relationship Between Significance of Training System and Human Resource Development System

Immediately after the completion of each course, and taking into consideration the importance of a particular subject, the results of training should be measured by giving an examination if necessary.

Participation in a training course and the results of examination should be recorded as part of training performance by the staff at the training center and sent to the Resource Management and Internal Control Division of the GDNT to be entered in the master file of National Tax Inspectors. Those records can later be used in making decisions with respect to personnel changes, promotions, and salary increases.

2.2.5 Relationship Between Training System and Qualification Renewal Examination for National Tax Inspectors

Regarding the qualification renewal examination, for example, those who have completed the Intermediate Training Course set out in the Short Term Action Plan may be exempted from the examination or the interval between examinations may be extended so that it is implemented once every four to five years instead of once every two years.

2.2.6 Equipment for Training and Human Resource Supply

The Central Training Center is presently located in a building of the UB City Tax Office and

two local training centers have been established in Khovd aimag and Dornod aimag (Choibalsan), which are in the east and west, respectively:

The Central Training Center has a classroom with a capacity of 66 people, a director's room, instructors' room, taxpayer service room and library, which are adequate for conducting any type of training. There are no full-time instructors in the west and east training centers. Tax inspectors of those aimags are responsible for communicating with the Central Training Center and managing their equipment. Each local training center has a classroom with a capacity of 30 people and tax materials, reasonably adequate for training purposes.

If the effectiveness of training is a priority issue, it would be more efficient to organize basic training courses at the Central Training Center and have all participants attend the same lectures at the same time, but local training centers should be appropriately used to save on training costs (travel and accommodation) since tax staff are dispersed throughout the vast territory of Mongolia.

With the preparation of phased training courses and those implemented by the local training centers, the number of staff should be increased to a level where the Training Center has at least 5 teachers. In this case, candidates can be selected from among existing counterparts in this project. Counterparts who are not selected to be instructors will be posted to tax offices or to the GDNT headquarters. However, they can also act as course instructors when needed.

As a result of collaboration between the study team and the Mongolian counterparts, the basic training course materials have been developed.

Although the materials do not entail all necessary issues to be covered during the training courses, they generally purport to increase the effectiveness of training courses by addressing major points such as "tax theory", "value added tax law", "personal income tax law", "corporate income tax law", "other taxes", "legal acts pertaining to taxation and collection", "tax accounting", "tax audit techniques", "international taxation", "taxation of international transactions" and "resolution of tax disputes" and the like.

2.2.7 Development of Annual Training Plan

With respect to the New Education Program, in November the staff of the training center starts to draw up a plan for the next year based on the basic policy of the New Education Program. In December, the prepared plan is submitted to the GDNT Management Meeting for approval. Prior to the start of a new quarter, a precise course schedule is fixed focusing on classification, time and place of training courses, etc.

The Short Term Action Plan is generally developed through similar procedures. Particularly careful consideration should be taken in developing basic training courses such as the Introductory and Intermediate Training Courses since they cover a broader scope in terms of quality and content. Since the Introductory Training Course is conducted within a year after recruitment of new staff, the following points should be decided on a priority basis:

- (1) Whether or not to organize centralized training at the Central Training Center gathering all participants once a year;
- (2) Whether or not to schedule central and local training courses at different times; and
- (3) How to schedule the time and place of training courses in the case of (2) above (including the number of staff at the training center who will be assigned to provinces)

Therefore, prior clarification is needed for issues pertaining to the number of participants and the training site as well as the sufficiency of the budget allocated for assigning staff to the training center and other similar issues.

Regarding the Intermediate Training Course, arrangements should be made with care. Questions remain as to whether or not the courses on taxation, tax collection and tax audit will be implemented at the same time. The timing of implementation should be set giving due

consideration to the workload of the tax officials. Criteria for the selection of candidates for this course, accommodation, curriculum, instructors, and materials are to be prepared prior to the start of the course.

Specialized and Other Training Courses can be provided upon request by divisions of the GDNT, UB City and its district tax offices. In such a case, an annual plan should be developed prior to the commencement of the next year.

2.2.8 Short Term Action Plan and Budget

To the extent possible, the Short Term Action Plan would not result in budget increases and therefore, the proposal takes this into consideration.

Looking at the current training budget, 21 million Tg are allocated for overseas training and 15 million Tg for training courses within the country, which has remained relatively unchanged over the past few years. In 2005, the training budget was increased. The budget consisted of 28.16 million Tg for overseas training while the domestic training budget totaled approximately 18.22 million Tg. Under the domestic training, if there is a background of increased tax revenues, an increase in the training budget may be likely, but even if that is inadequate, measures such as diverting a portion of the budget from overseas training to domestic training should be examined.

2.3 Long Term Vision

2.3.1 Establishment of a Regular Recruitment System with the Increase in Retirement

One of the important requirements in the stable establishment of a tax staff education system in Mongolia is the maintenance of a certain level of participants in the training programs each year. Achieving this would facilitate training plans and enable efficient preparation for training.

With respect to new hires, a system is presently being adopted whereby staff is recruited to fill vacant posts as needed throughout the year. One reason for this practice is the limited number of staff reaching retirement age or leaving for other reasons.

In the future, as the number of staff reaching retirement age increases, a legal system should be put into place where the date of retirement is concentrated at a fixed time each year and the hiring of new recruits to fill the vacancies is concentrated at a fixed period each year.

2.3.2 Training Structure

The training structure in the Long Term Vision will basically adopt the training structure presented in the Short Term Action Plan, but further enhancement in terms of both quality and quantity will be needed. For the Basic Training, the Introductory Training Course should be lengthened to 2 months and the Intermediate Training Course to 3 months. Introduction of new curriculum to meet rising needs will be possible and training can be implemented on a more measured schedule. In some cases, in addition to the study of laws including civil and commercial laws, the introduction of a more rounded education with the aim of character development will be considered. Both "Specialized Training" and "Other Training" will continue to follow the training content and training period in the Long Term Vision as those contained in the Short Term Action Plan, but efforts will be made toward improvements including increasing the frequency and making adjustments to the teaching materials.

2.3.3 Linkage Between the Training System and the Personnel System

A recommendation was made in the Short Term Action Plan for improving the linkage between the training system and the personnel system, and its implementation needs to be continued in the Long Term Vision.

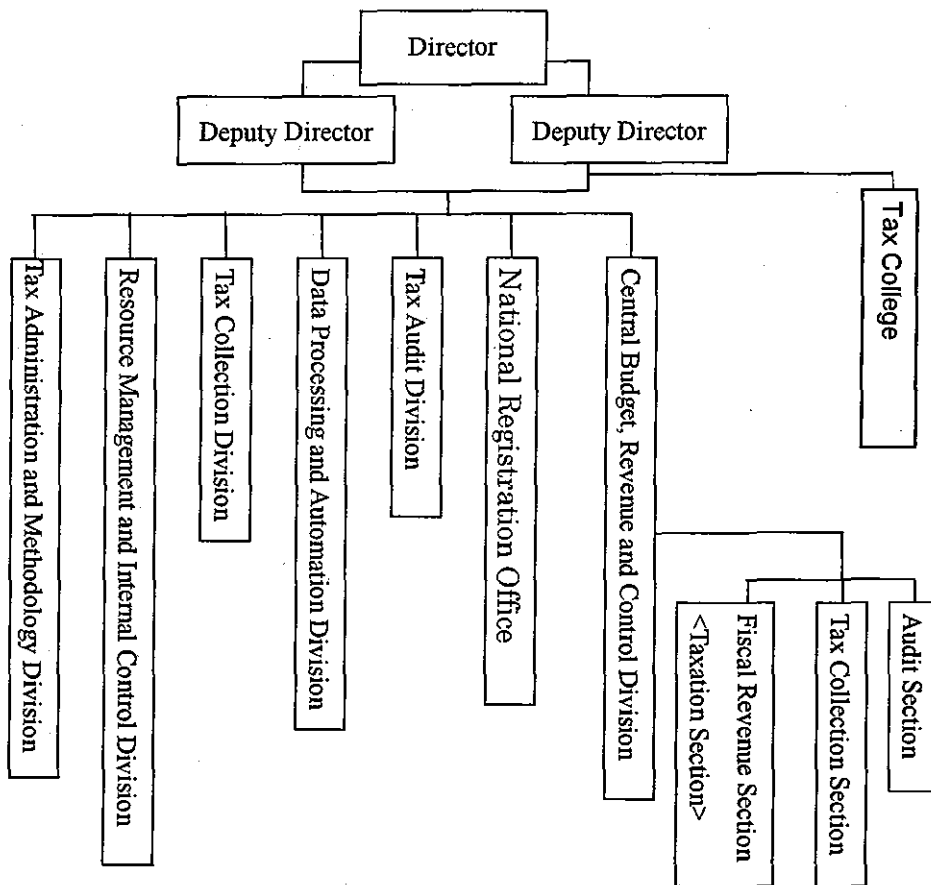
2.3.4 Physical and Human Resources for Training

In order for the training system to achieve truly efficient and effective results, as stated in the Short Term Action Plan, it is essential to put in place the required physical facilities including classrooms and teaching materials as well as human resources including teaching and administrative staff. Although a certain level of facilities are already in place, once the Basic Training (Phased Training) is implemented and if expansion is planned including Operational Training and Special Training or if increase in frequency is planned, the requisite physical and human resources will need to be put in place.

In order to enrich the current training center, we would recommend the creation of a tax college, similar to ones established in Japan and in other countries.

A tax college, attached to the GDNT, would be organized as shown below.

[Organizational Diagram of GDNT]



2.4 Training Curriculum

2.4.1 Issues Considered In the Course of Developing Training Curriculum

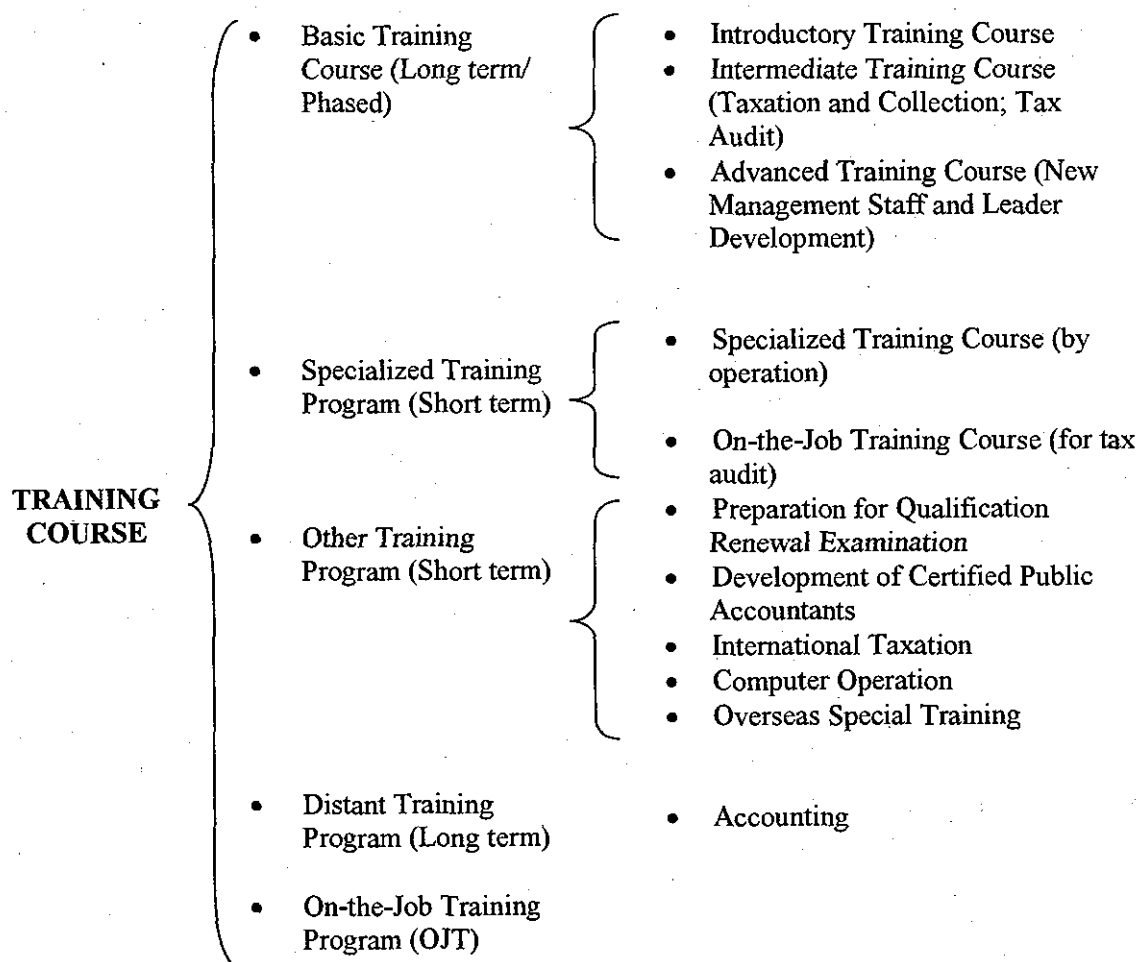
In developing the training curriculum, the following items are to be considered:

- All courses should be systematized and organized so that all staff can attend necessary courses during their period of employment; and
- Training curriculum should be prepared in a manner that is consistent not only with the desired outline of training curriculum, but also with the present circumstances of

Mongolia.

2.4.2 Purpose and Classification

Proposals on purpose, coverage and timing of each course are defined below. Structure and classification of training courses are illustrated as follows:



Issues we have considered:

- The purpose of the Introductory Training Course is to provide basic knowledge and ethical standards needed by newly recruited tax staff in performing their duties. To ensure efficiency and effectiveness of the courses, it is appropriate to conduct this training on a unified basis immediately after the date of employment, but we propose here to train new employees within one year after employment through the central and local training centers considering the constraints of the Mongolian training budget and the nature of hiring whereby vacancies are filled as required throughout the year.
- The Intermediate Training Course aims at preparing personnel who are specialized by type of operation. Therefore, we suggest organizing this as two different courses through the selection of participants. Looking at the status of instructors and purpose of training, it would be more effective to organize centrally, but, as in the case of the Introductory Training Course, it is only feasible to implement this course at 3 training centers.

- To date, training for tax staff has been provided solely by the Central Training Center based on an annual training plan approved at the GDNT Management Meeting and there has been no other courses provided or arranged by the affected divisions to address particular topical needs. We propose that fostering training courses such as specialized and on-the-job training courses on tax audit be organized by the relevant division of the GDNT because such training courses are essential for the smooth implementation of tax administration.
- It goes without saying that it is important that a well-implemented training program be put in place for local tax staff in Aimags and in the case of Mongolia that is characterized by its large geographic area and poor road infrastructure. Therefore, we plan to implement a distant training course covering Bookkeeping and Accounting, the highest priority subject.

2.4.3 Training Schedule

- **Training hours** Total training hours is fixed at 8 hours per day (including 2 hours of self-study).
- **Schedule** Schedule for the Introductory and Intermediate Training Courses is shown as an example.
- **Schedule by subjects** Schedule of each training course takes into account the purpose of the training course and the level of knowledge of participants. The Introductory and Intermediate Training Courses are supposed to last 20 days, a total of 160 hours.

2.5 Third-Party Information System

2.5.1 Status of the Third-Party Information System

Database entries by PC processing initially included (i) customs information, (ii) VAT invoices, (iii) third-party information papers, (iv) information relating to the manufacture of alcohol, and (v) information relating to the sale of alcohol. Subsequently, (vi) information relating to withholding taxes from juridical entities, was added. With respect to third-party information papers, "bank loan information", "subsidiary company information", "bid information", and "special tax information" (information relating to seals attached to liquor and tobacco products) were added.

Currently, the system runs trouble-free. With the future development of software programs, there are plans to add (i) information relating to the transfer of title for real estate including land from State Registration Department of Immovable Property, (ii) information on monies paid to the private sector from the State Treasury for bids relating to goods and services procured by the state, and (iii) information relating to salary payments by juridical corporations from General Authority for Social Insurance. For this purpose, approaches have been made to the related agencies (State Center for Civil Registration & Information, State Registration Department of Immovable Property, General Authority for Social Insurance, General Police Department, Mineral Resources Authority of Mongolia and the like) but due to delays in program development, lack of cooperation and other factors, progress in achieving this has been impeded.

From among the types of information, VAT invoices had been entered entirely by the GDNT but the number of entries is voluminous and concerns have risen over potential delays due to manpower shortage. In order to improve the efficiency of operational processing, it was decided that portions relating to the Ulaanbaatar Tax Office and district tax offices would be entered by the collecting tax office and this has been implemented since 2004.

With respect to the utilization of third-party information, a degree of success has been demonstrated through cases of being able to identify transactions that were not recorded on the books through the customs information.

2.5.2 Issues to Be Addressed

As mentioned above, the results of hearings from the GDNT headquarters and Ulaanbaatar Tax Office with respect to the collection of third-party information show the progress being made in the utilization and operating conditions of the third-party information system.

What is most important is the heightened awareness of third-party information by the management staff of each state's taxing institutions and the tax inspectors. This may be largely influenced by the business agreement relating to the collection and utilization of data and information between the Director General of the GDNT and the directors of each tax offices. In particular, with respect to the inspectors' utilization of information stored in the database, "Rules for Use" have been established and utilization in tax audits is becoming more accepted, with the result that the effects from utilization in audits have improved significantly.

In the future, it will be important to further expand the type and scope of information to be collected and to expedite the development of environment and systems that will facilitate collection of information from not only inside the taxing institutions but also from other state organs and large private enterprises. This issue is not limited only to taxation and many issues including the complex nature of individual privacy must be cleared.

In addition, with respect to the utilization of the third-party information database, although there is a high level of awareness of its importance among the inspectors in the central regions such as Ulaanbaatar, the level of awareness in the outlying regions remains low and stronger guidance on this particular aspect needs to be addressed.

With respect to the volume of information from Customs, although it has exceeded 50% of the original planned level, due to the system operations on the Customs Agency side, not all of the required information has been stored. The GDNT will need to approach the Customs Agency for strengthening the internal checking system.

2.6 Public Relations, Services and Tax Education for Taxpayers

2.6.1 Public Relations for Taxpayers

A well-organized execution system and cooperation from taxpayers are indispensable for the smooth operation of tax administration.

When looking at tax payment circumstances in Mongolia, we observe the following characteristics:

- (1) Taxpayers are relatively few in number (compared to the total population).
- (2) Mongolia is extensive in area and type of land. The tax rate differs depending on the area.
- (3) Tax payment often starts only after registration.
- (4) A number of tax offices have only one staff.
- (5) There are many penalties related to tax.

Considering the above points, we believe it would be beneficial to implement public relations for the invisible taxpayers from the following perspective:

- (1) Increasing the number of taxpayers and helping taxpayers understand the necessity of learning general tax knowledge, and especially the utilization and necessity of tax.
- (2) Selecting media suitable for diverse taxpayers (newspaper, radio, television, video, web site, etc.)
- (3) Considering the variety of areas and not regarding them as identical. Part of the description should be changed according to the area.
- (4) Timely public relations should be conducted for registration as well as for publicizing of the due time.
- (5) Selecting uniform and extensive public relations methods for tax categories relevant to many taxpayers.

(6) Selecting public relations methods taking into account the fact that there are relatively few tax categories with large tax amounts (PR method suitable for concentration of areas, business affiliations, existence of industry and industry groups)

2.6.2 Taxpayer Services

For the purpose of increasing the number of self-assessed taxpayers, GDNT opened up the fourth "Taxpayers Service Center" inside the Ulaanbaatar Tax Office on October 5, 2004, as part of the services for taxpayers. The operations of the Taxpayers Service Center are as follows:

- (1) Registration (registration to the database, processing of individual information)
- (2) Helping with tax return (assistance to corporations with only one person, etc.)
- (3) Advice (wide range of assistance at the time of incorporation)
- (4) Acceptance (acceptance of documents from taxpayers)
- (5) Issuing of certification (issuing of certification of tax payment)

GDNT intends to upgrade the services provided by such centers as well as increase the number of centers. Although tax administration focusing on services is an ideal model, it is also true that the effectiveness of providing these services is limited in tax administration. Consequently, it is important not to be misled by temporary gains during a good economy, and to consider the overall circumstances surrounding taxes and properly verify the results of the Taxpayers Service Centers. Furthermore, sufficient review should be carried out regarding coordination with the existing administration, contents, scale, location, period, etc. followed by a review of the need to develop an environment to bring about sufficient utilization of the services.

2.6.3 Tax Education

Taxes are essential for the state and are relevant to all citizens. It would not be an exaggeration to say that the consequence of taxation determines the status of the country and its citizens, making it essential to understand tax. Tax education targets all citizens and is broad and all encompassing.

In order to educate the people from an early stage, and taking into consideration the importance of tax, tax education should be implemented as an integral part of school curriculum. However, in the current state, hardly any classes are being given until the higher education level. From the perspective of securing tax revenues to meet the fiscal demands of the state, the GDNT wishes to implement tax education at the school level in order to maximize taxpayer cooperation.

For this reason, in order to enhance the practical effects of tax education, discussions on the subject between the GDNT and the Ministry of Culture, Education and Science would be desirable.

2.7 Tax Accountant System

2.7.1 Status and Issues of the Certified Public Accountant System

According to the Mongolian Ministry of Finance and Economy, in the 11 years since the country initiated certified public accountant examinations in 1993, some 1,100 people have acquired certified public accountant qualification.

To become eligible to take the examination for certified public accountant qualification in Mongolia (hereinafter the "CPA"), the first step is to obtain an accountancy title from a university accounting faculty (equivalent to a bachelors degree in Japan). The next step is to either acquire 2 years professional experience in an accountancy function within a corporation

or 2 years practical experience working in a bank, which fulfills the eligibility requirements for taking the examination.

In Mongolia, there are 262 state-owned enterprises, 158 regional public corporations, 420 joint-stock companies, 22,978 limited liability companies, 2,429 limited partnerships, 1,817 unlimited partnerships, and 2,787 cooperatives • savings and loan associations in operation in Mongolia. However, as of the end of 2003, 46 accounting audit companies performed accounting audits of 3,356 juridical entities. The existing accounting audit companies have the collective capacity to undertake accounting audits on 4,600 juridical entities.

The business of certified public accountants is “auditing” and only certified public accountants are able to perform audits. In addition to their duties, tax questions are also referred to auditing firms. In enterprises, distinctions between deductible items and non-deductible items are not adequately categorized in the bookkeeping and in many cases, rather than consulting with the tax office, questions are brought to the auditing firms.

2.7.2 Status of Tax Filing by Taxpayers

In Mongolia, comprehensive reform of the tax system has been undertaken including the introduction of a new accounting law in 1993. Taxpayers are obligated to file tax returns according to their tax classification and the need for tax accounting has increased not only for the taxpayers but also for the GDNT.

2.7.3 Issues of Tax Filing by Taxpayers and the Need for a Tax Accountant System

The current tax accounting theory for computing taxes is not based on the bookkeeping accounting standard. Bookkeeping is treated in the university course materials as accounting and there are no teaching materials intended for the general taxpayer.

A fundamental reform of the tax system is expected in the future when the quality and quantity of the contents required in the returns are increased. In the current status, it is likely that the taxpayers will not be able to respond. However, to place total reliance on taxing authorities through the Taxpayer Services Centers to respond to such taxpayers would be an excessive burden. As tax payment is based on autonomous filing of returns, the returns should be declared from the taxpayer side.

If issues relating to the returns of juridical entities or individuals are dealt with and resolved by tax accountants, it would enable the preparation of original documentation and accounting book records, which would become the operation evidence of each business. Therefore, it would lead to a reduction in the workload of tax audits and bring about favorable results in the quantity and quality of tax audits.

2.7.4 Items to Bear in Mind in Creating a Tax Accountant System

The mission for a tax accountant is to make every effort to properly realize the tax payment obligations provided for in the laws and regulations relating to taxation, as a professional on tax matters from an independent and fair perspective pursuant to the spirit of the self-assessed taxation system and responding to the confidence placed in him or her by the taxpayer. A tax accountant will undertake the following tasks.

(1) Tax Representation

Represent and perform an agency role in filing returns, applications, demands, and claims against tax audits or dispositions including lodging protests to the tax officials. A tax accountant, when engaging in tax representation, must receive a power of attorney from the client and submit the same to the tax office. On-site observation during tax audits is also an important task for a tax accountant.

(2) Preparation of Tax Documents

A tax accountant prepares documents including tax returns and applications to be submitted to the tax office. When preparing and submitting tax returns to the tax office, a tax accountant must affix his or her signature and stamp.

(3) Tax Counseling

Relating to declarations, claims and testimonies, preparation of returns to the tax office, provide counseling services with respect to items relating to the computation of the tax base and the like.

(4) Accounting

Associated with the tax accountancy tasks, a tax accountant will also perform the tasks of bookkeeping, preparation of financial documents and other financial operations on behalf of clients.

(5) Assistance in Legal Disputes Relating to Taxation

In a legal action relating to taxation, a tax accountant will appear in court with the legal agent (lawyer) and offer testimony to support the taxpayer.

The above tax representation, preparation of tax documents, and provision of tax counseling can only be provided by a tax accountant whether such service is provided gratis or on a fee basis. A tax accountant may not provide advice for tax evasion. If a client takes any illegal actions, the tax accountant must provide advice to remedy such acts. To respond to the confidence of the taxpayers, a tax accountant must maintain information gained through the performance of his or her duties in confidence. A tax accountant is prohibited from taking any actions that will damage the credibility and dignity of a tax accountant and must maintain books relating to the public tax accountancy practice and must exercise supervision over his or her employees.

In creating a tax accountant system to undertake such mission and tasks, the following items must be provided for in legal statutes:

(i) Items relating to the certification of qualification of tax accountants, (ii) items relating to the implementation of the tax accountant examination, (iii) items relating to the registration of tax accountants, (iv) items relating to the rights and obligations of tax accountants, and (v) items relating to the legal obligations of tax accountants.

2.7.5 Draft Plan for the Mongolian Tax Accountant System

A specialist engaged in tax representation shall be called a "registered tax accountant" and a registration system shall be implemented for the specialists engaged in tax representation. A tax accountant shall acquire "registered tax accountant qualification certification" and those who are registered may engage in tax representation. A tax accountant is an independent professional and must possess a certain academic level and practical professional abilities as in the case of accountants and lawyers and by possessing such qualities, a tax accountant will be able to provide specialist services to clients. Therefore, not all persons engaged in economics or law would be able to become tax accountants. In order to become a registered tax accountant, he or she must fulfill certain qualification certification procedures.

The qualification certification system for tax accountants is an important factor of the tax accountant system and is the generic term for the series of measures and method of screening for tax accountants. Establishment of a registered tax accountant system will guarantee the quality of tax representation and protect the legal rights of the clients, and is necessary to maintain the proper authority of the profession of registered tax accountants. This will include the "examination system" and the "certification system".

2.8 Monitoring and Support of the Progress of Proposals Made by JICA Tax Collection Enhancement Studies

2.8.1 Taxpayer Registration, Tracking of Unlocated Persons and Transfer of Paper Information

(1) Clarification of Unlocated Taxpayers

For example, although it is required for a corporation to register at the competent tax office after registering at the GDNT's National Registration Office and obtain a certificate of such registration, there are some corporations that do not follow the procedures, resulting in mismatched registration between the National Registration Office and tax offices. According to the "Taxpayer Registration Rules", the status of registration to the database must be crosschecked once a week, and if any mismatch is found, the tax staff in charge at the tax office should clarify the location of such taxpayer. If no return is filed despite the obligation to file a return, the actual location must be checked first. If an unlocated status is confirmed, the records of the State Center for Civil Registration & Information are referred to in order to check for a new address or the records of the National Registration Office or Customs are checked. If these measures fail, inquiries are made to the neighbors. If necessary, the police are asked to assist.

(2) Countermeasures for Delinquent Corporations

Since October 2003, corporations have been checked and their statistics taken in accordance with the new law regarding registration of corporations. A Sanction Committee for delinquent accounts has been set up at the GDNT. The Committee extracts delinquents from the statistical data of corporations, and asks Customs or the National Registration Office to confirm their addresses. For confirmed corporations, a notice of back duty tax payment will be sent. If the corporation cannot be located, its address shall be tracked by asking for assistance as described above.

2.8.2 Statutory Receipt System

Implementation of this system is presently being sought through an official notice from the Minister. Although the GDNT will be working with relevant authorities to have the proposal enacted, it is understood that the existence of a number of difficult problems would most likely hinder obtaining the consent of Congress. For example, many members of Congress are against this enactment, and it is expected that taxpayers would object to charged delivery of statutory receipt.

The JICA Study Team proposed this statutory receipt system based on the situation of Mongolia during the period of 1998 to 2000. At that time, the majority of taxpayers did not prepare or keep any books with original entries, such as transaction books, invoices and receipts. Thus, identifying their taxable income was quite difficult. In such a situation, it was considered effective to have taxpayers prepare material that would help identify their taxable income, even if this was against their will. The introduction of a statutory receipt system was proposed against such a background. However, in order to establish a true self-assessment taxation system, and under the current circumstances in which knowledge about tax and bookkeeping is gradually prevailing among taxpayers, it seems appropriate to promote the practice of bookkeeping for the establishment of a self-assessment taxation system.

2.8.3 Preferred Return System for Good Taxpayers

The GDNT has a thorough understanding of the preferred return system for good taxpayers through research on the "blue return system" in Japan. The study team received an explanation from the GDNT that they would compare and analyze such systems of other countries as well to introduce the most appropriate system for Mongolia.

2.8.4 Real Estate Tax

After enactment of the Land Law and the Land Privatization Law, a proposal for amendment of the Real Estate Tax Law to impose real estate tax on land was discussed at Congress on January 10, 2004, where the amendment was approved and enacted. At the same time, the "Ordinance Concerning Land Tax" was established. The amount of the tax is 0.6% of the assessed value of the land. The assessed value of the land is 44,000 Tg per square meter. The final value was determined by region, based on the above value, with the ratio taking into account the difference in each region.

However, when computed simply with the calculation formula above, the tax burden appeared fairly heavy compared with the rent for the land. Considering that point, in actual taxation, enough exemption measures are taken so that the tax for land will not exceed the rent.

In any event, imposition of real estate tax on land has just started. The type of problems that might occur and the amendments needed depend on future developments.

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