

### 3 Long Term Vision

#### 3.1 Establishment of a Fixed Term Employment System to Deal with the Increase in Retirements

One of the important requirements in putting together the tax-staff education system in Mongolia is to maintain a consistent standard each year in the number of people who receive the training. This will facilitate the planning and efficient preparation of the training.

Currently new employees are hired throughout the year, as vacancies arise. The rationale for this practice is the low number of people resigning their posts, whether due to retirement or for other reasons.

In the future, as the number of personnel reaching mandatory retirement age increases, the legal framework will need to be revised. A hiring system should be established in which the timing of retirement is fixed and timing of the new hires is set to correspond to the timing of retirements.

For example, the mandatory retirement date could be set as “the last day of August following the day on which the employee’s 60<sup>th</sup> birthday falls (in the case of female staff, the 55<sup>th</sup> birthday).” For new hires, “hiring (provisional hiring)” to supplement the shortage in staffing due to retirement and the like shall take place on July 1”. The number of new hires should be set at the level of current staffing needs, taking into account the number of staff who will be reaching mandatory retirement at the end of August.

For reference, the age distribution of current staffing is shown in the table below.

(Staff Age Distribution)

(as of end of December 2003)

Age (5 year brackets)	(i) No. of Staff	(ii) Avg. No. of Staff at Each Age (i) ÷ 4
Below 21	8	2. 7
21 -25	82	16. 4
26 -30	159	31. 8
31 -35	198	39. 6
36 -40	225	45. 0
41 -45	227	45. 4
46 -50	199	39. 8
51 -55	119	23. 8
56 -60	41	8. 2
Over 61	2	1. 0
Total	1260	-

(Note 1 )The average number of staff at each age for “Below 21” in (ii) above was calculated by [(i) ÷ 3] and the average number of staff at each age for “over 61” was calculated by [(i) ÷ 2].

(Note 2)Female staff account for 64% of the total.

(Note 3)Currently the mandatory retirement age for males is 60 while for female staff it is 55.

From the above table, assuming the fixed retirement and hiring period is adopted and there are no new increases in the staffing levels, the average number of new hires for each of the future five-year periods (which equals average number of retirees) can be estimated as follows.

★ Average new hires each year for the next five years (= average number of retirees)  
=(Over 61)1+(56 to 60)(8.2-1=7.2) + (51 to 55)(Number of female staff reaching mandatory retirement) (23.8 x 64%=15.2) + (Number of staff leaving for reasons other than mandatory retirement) 3  
= 26

(Note) These figures assume that one person from among the mandatory retirement age group of 60 continues to work past 61 and that each year three staff will Terminate employment for reasons other than mandatory retirement. The same assumptions are also made for the following examples.

★ Average number of new hires (=average number of retirees) each year in the next five-year period (2010-2014)  
=(Over 61)1+(56 to 60)(23.8-15.2-1=7.6) + (51 to 55)(Number of female staff reaching mandatory retirement) (39.8 x 64%=25.5) + (Number of staff leaving for reasons other than mandatory retirement) 3  
= 37

★ Average number of new hires (=average number of retirees) each year in the following five-year period (2015-2019)  
=(Over 61)1+(56 to 60)(39.8-25.1-1=13.7) + (51 to 55)(Number of female staff reaching mandatory retirement) (45.4 x 64%=29.1) + (Number of staff leaving for reasons other than mandatory retirement) 3  
=46

(Note) These are the peak years with the highest number of retirees. After this generation the number of retirees will gradually decline.

This trial calculation of the number of new hires depends on assumptions regarding the annual number of new hires in five-year blocs over the next 15 years. The numbers are assumed to increase from 26 to 46 before subsequently declining.

In reality, many different outcomes are possible and the actual numbers will likely differ from

the results of the trial calculation. However, the general pattern may be gleaned. If increased staffing were allowed, those would have to be incorporated into the projections.

Based on the above assumptions regarding staffing, the estimate of the number of staff receiving the introductory training envisioned in the Long Term Vision, and an assumption of some increase in the staffing levels, the number of new hires subject to the training system should range between 30 and 50 staff.

For the time being, this increase in new hires can be addressed with only a minor increase in the physical and human resources deployed in the training system included in the Short Term Action Plan. For the longer Term, however, an expansion of the physical facilities and human resources (such as the teaching staff) will be required according to the situation, to improve the training system both quantitatively and qualitatively. Notably, a tax college will need to be established, as discussed in detail in a later section.

### **3.2 Training Structure**

#### **(Principal Improvements)**

- In Basic Training, Introductory Training will expand to roughly 2 months and Intermediate Training to about 3 months. New curricula can be introduced as needed and training can be conducted at a comfortable pace. Depending on circumstances, general-knowledge lectures can be incorporated, with the objective of cultivating character in addition to providing education about civil, commercial and general law.

The training structure in the Long Term Vision will follow the training structure indicated in the Short Term Action Plan in principle, but some creativity will be needed to provide more and better training.

The following tables outline training structures described in the Short Term Action Plan that have been amended for inclusion in the Long Term Vision.

**List of Training Structures According to the Long Term Vision**

Name of Training Program	Objectives	Target Staff	Period	Responsible Division	
<b>I. Basic Training (Phased Training)</b>	Introductory Training	To instill in new tax staff the basic knowledge, including ethics and tax law, required of tax staff	All new hires. Training is implemented immediately after hiring.	About 2 months	Training Center
	Intermediate Training	<p align="center"><b>A. Taxation • Collection Course</b></p> In addition to acquiring a high level of operational skills, trainees acquire specialized knowledge needed in performing taxation and collection.	Targets selected from national tax inspectors with 7 or more years but less than 10 years experience.	About 3 months	Training Center
		<p align="center"><b>B. Tax Audit Course</b></p> In addition to acquiring a high level of operational skills, trainees acquire specialized knowledge needed in performing tax audits.	Taking into consideration the training results and appointment as management, expect 60 – 70% of the eligible staff will be selected to take the course.		
Advanced Training	<p align="center"><b>A. Manager Training Course</b></p> Trainees acquire the knowledge required to manage and the leadership skills required to manage subordinates.	New managers	1 week	Resource Management and Internal Control Division	

<b>I. Basic Training (Phased Training)</b>	<p style="text-align: center;">Advanced Training</p>	<p><b>B. Senior Management Development Course</b>  The objective of this course is to develop candidates for executive positions within GDNT. The course aims to develop personnel who are knowledgeable about law, economics, tax policies, international taxation and other matters as required of executive staff. Candidates are trained at domestic and overseas universities and overseas training institutions. At the end of the training, the trainees will prepare a thesis on an assigned research topic.</p>	<p>National tax inspectors with 10 or more years of experience who have completed the Intermediate Training and whose task performance record is favorable. Candidates are selected by the GDNT management Meeting</p>	<p>Period as specified by the universities or training institutions</p>	<p>Tax Administration and Methodology Division</p>
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(Principal Improvements)

• For both the “Specialized Training” in the below table and the “The Other Training” in the following table, the content and the period of training will be the same in the Long Term Vision as they are in the Short Term Action Plan. However, some improvements will be attempted, such as increasing the frequency of training and effecting some modifications in the training-text materials.

Name of Training Program	Objectives	Target	Period	Responsible Division
<p style="text-align: center;">II Specialized Training (Short Term Training)</p>	<p>To enable trainees to find early solutions to immediate issues facing each division of GDNT and the UB Tax Office and to enhance processing capabilities.</p> <ul style="list-style-type: none"> <li>• This training is implemented as operational needs arise.</li> </ul> <p>[Examples]</p> <ul style="list-style-type: none"> <li>• International-taxation and double-taxation treaties</li> <li>• Audit of special taxes</li> <li>• Registration reports</li> <li>• Computer processing of corporate tax data and computer processing of tax-related information</li> <li>• On-the-job training in tax auditing</li> <li>• Tax investigation</li> <li>• Tax-conflict resolution</li> <li>• Filing and sorting of documents</li> </ul> <p>Other</p>	<ul style="list-style-type: none"> <li>• Staff responsible for operation at headquarters and tax offices</li> <li>• Staff responsible for taxpayer service centers</li> <li>• Operators at headquarters and tax offices</li> </ul>	<p>Three to five days</p>	<p>Appropriate divisions of GDNT and the UB Tax Office</p>

Name of Training Program	Objectives	Target	Period	Responsible Division
<p style="text-align: center;">III. The Other Training (Short Term Training)</p>	<p>Training with specific objectives in knowledge and skills needed to perform duties smoothly and effectively</p> <p><b>A. Domestic Training</b> [Examples ]</p> <ul style="list-style-type: none"> <li>• Preparatory training for renewal qualification exams</li> </ul>	<ul style="list-style-type: none"> <li>• Applicants for the current year's qualification examinations</li> </ul>	<p>About three days</p>	<ul style="list-style-type: none"> <li>• Training Center</li> </ul>
	<ul style="list-style-type: none"> <li>• Training to develop Certified Public Accountants</li> </ul>	<ul style="list-style-type: none"> <li>• Inspectors in charge of major taxpayers</li> </ul>	<p>Specified period</p>	<ul style="list-style-type: none"> <li>• Contracted Training</li> </ul>
	<ul style="list-style-type: none"> <li>• Computer training, etc.</li> </ul>	<ul style="list-style-type: none"> <li>• New hires, operators and the like</li> </ul>	<p>About two weeks</p>	<p>Training Center</p>
	<p><b>B. Overseas Training</b> [Example] Training in Turkey, South Korea, Japan, etc</p>	<ul style="list-style-type: none"> <li>• Executive staff of GDNT and Inspectors</li> </ul>	<p>About three days</p>	<p>Tax Administration and Methodology Division</p>

Name of Training Program	Objectives	Target	Period	Responsible Division
IV. Correspondence Training (Long Term Training)	Bookkeeping Accounting Correspondence Training • To provide the basic grounding in bookkeeping required of tax staff • Training materials (bookkeeping text used in Introductory Training) will be sent so that trainees can study on their own • Periodically problems will be sent and the trainee will complete the answers and submit by mail which will be marked and returned	Any staff are deemed to require bookkeeping skills	Six months	Training Center

### 3.3 Relationship between the Training System and the Personnel System

The objectives set for the training system are to develop staff with (i) a clear view of their roles as members of society and as tax staff and (ii) a body of specialized knowledge and skills relating to tax. This training is intended to facilitate the smooth functioning of tax administration, leading in turn to appropriate and stable collection of fiscal revenues, which is the foundation for national development.

Because the training system is implemented to develop the capable human resources that will constitute the tax organization, it is closely related with the personnel system. Close liaison between training and personnel will be essential to ensure maximum effectiveness.

In consideration of the importance of this relationship, the Short Term Action Plan contains plans for improving communication between the training system and the personnel system. These plans need to be implemented in the Long Term Vision as well.

The key points of these plans are summarized below.

- ① Upon completion of training, considering the importance of the training subject, if deemed to be important, always implement a test to gain grasp of the results of the training.
- ② As well as recording them at the Training Center, training and examination results should be sent to the GDNT Resource Management and Internal Control Division for inclusion in the personnel records of the trainee. This information will serve as reference material



regarding suitability for subsequent postings and evaluations.

- ③ Trainees who achieve outstanding results, particularly in Basic Training (Introductory Training and Intermediate Training) should be awarded a commendation of some kind for their achievement. For example, a commendation certificate and a commemorative gift may be granted. If possible, the results could be reflected directly through measures such as salary increases or promotions after training is completed.
- ③ After training is completed, questionnaire surveys will be conducted to grasp trainees' degree of comprehension, to measure the effectiveness of the training and as reference data for future training programs.
- ⑤ Revisions to the system for renewal-qualification examinations will be considered, to exempt trainees who have completed Intermediate Training or a higher level of training from having to take the examinations, or to grant them an extension period for renewal of qualifications.

### **3.4 Physical and Human Resources Required for Training**

As discussed in the Short Term Action Plan, assembling an efficient and effective training system requires the preparation of both physical facilities, including classrooms and text materials, and appropriate human resources, including instructional staff and administrative staff.

Although some of the required physical facilities are in place already, additional physical and human resources will be required to provide Basic Training (Phased Training), to plan for expansion of the trainee base, and to increase the frequency of Specialized Training and others. Additional funding will need to be committed, and although this effort is part of the Long Term Vision covering the period from 2009 to 2020, some slippage may occur at the latter stages of the Vision. Mongolia's geography and infrastructure pose particular challenges: Tax staff must operate across a vast territory, modes of transportation are underdeveloped, and moving instructors or trainees to where they are needed entails substantial cost in terms of both time and travel expenses. These considerations need to be taken into account in the Long Term Vision. Moreover, the severe winter conditions limit the range of travel, so implementing training is virtually impossible except in urban areas such as UB. All of these concerns must be addressed in formulating a training plan.

#### **(1) Establishment of a Tax College**

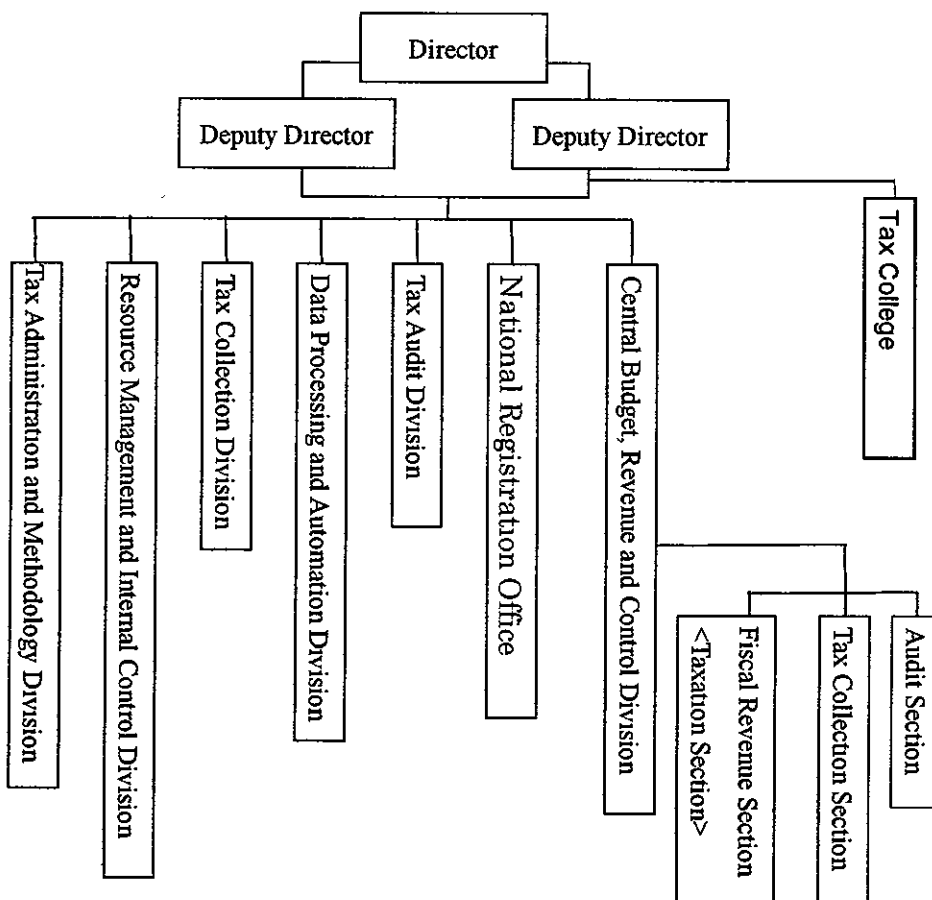
To enhance the capabilities of the current Training Center, we propose the establishment of a college dedicated to tax matters, similar to existing institutions in Japan and other countries.

Establishment of a tax college will require organizational changes and an appropriate budget.

We expect that it could be incorporated in the latter half of the Long Term Vision.

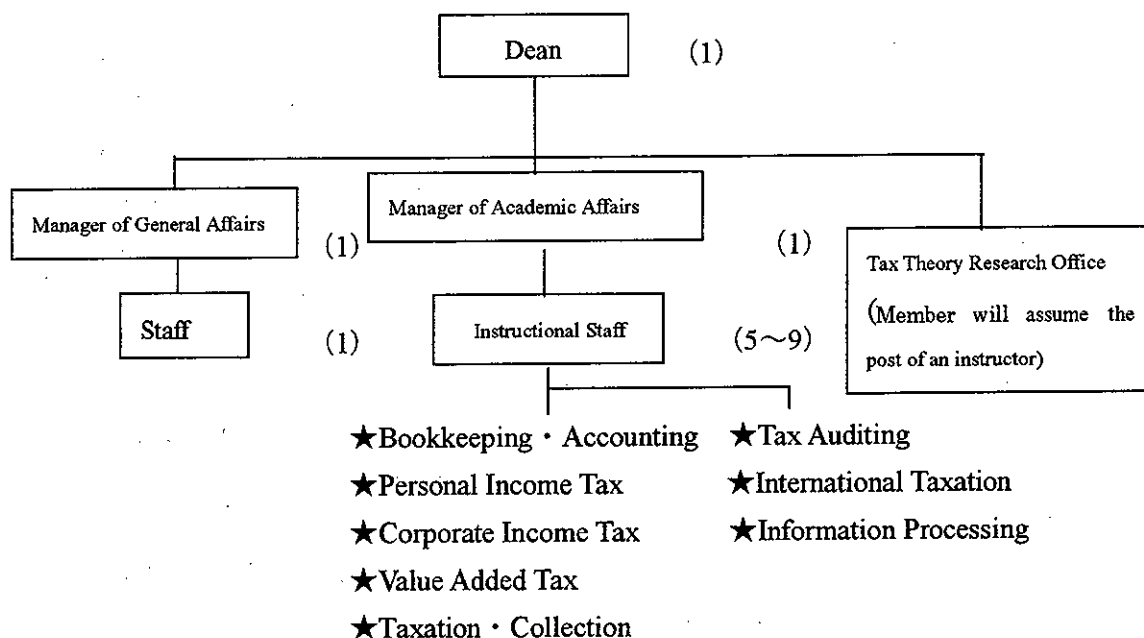
A. The Tax College will be an auxiliary organ of GDNT and would be organized as shown below

**[Organizational Diagram of GDNT]**



B The diagram below outlines the organization of the Tax College. The Dean is positioned between the Deputy Director and the division heads at GDNT

**[Tax College Organization Diagram]**



- (A) The Dean will have the overall responsibility for the operation of the Tax College. The Dean will submit a budget, training plans and the like on an annual basis to the executive committee of the GDNT for approval. At each year-end, the Dean will also submit an accounting report, as well as other reports including training results, to the executive committee of GDNT.
- (B) The Manager of General Affairs will be responsible for the administration of college facilities and regional training centers; procurement of equipment, materials and sundry items; preparation of budget plans; and other general affairs.
- (C) The Manager for Academic Affairs will provide guidance and supervision of instructors; plan and implement examinations and presentations after the completion of various training programs; and prepare reports and data, including training results, examination results and questionnaire results, for submission to the executive committee of GDNT.
- (D) Instructors will provide instruction, with each instructor assigned to a specific tax category. In cases where the workload among the instructors is imbalanced, some instructors may take on multiple tax categories as appropriate, and staff will work as a group to implement the courses. Correspondence training will also be included among their responsibilities.

- (E) In principle, instructors shall assume the role of providing instruction for each tax category. As required, however, managers and staff responsible for various sectors of GDNT as well as professors from external universities will also be invited to assume instructional roles.
- (F) A Tax Theory Research Office will be established. The objective of the Tax Theory Research Office is to provide a forum where instructors can undertake research on current issues in tax law and tax administration, to establish a theoretical framework for resolving taxing-agency and other issues. Depending on the research theme, the products of the research may provide theoretical backing for the taxing-agency stance in the event of a legal dispute. In general, each instructor will undertake a research project on one particular topic each year.

Researchers may be asked to prepare papers regarding the theories or solutions resulting from their research and produce them as pamphlets for distribution to the Ministry of Justice and other relevant ministries and among the management in the department, as well as to internal staff upon request .

The Tax Theory Research Office will also be engaged in the education of internal staff and will provide resources to upgrade levels of training.

C Instructors will be selected as follows.

In the Short Term Action Plan, instructors responsible for classes relating to tax law and the like will be primarily selected from among the staffs who are jointly preparing the teaching materials and texts in this project. However, in the Long Term Vision, these staff will not be required to double as instructors. Although it may continue to be useful to assign these staff as instructors, most of the instructing staff should be selected from suitable staff who are currently engaged in the relevant area, rather than developing instructional talent through training or education. The reason for this approach is that the objectives established for introductory and intermediate phased training are to instill practical knowledge and skills that can be readily applied in the workplace and to provide the most up-to-date information relating to tax administration. For this purpose, the thinking is that it would be more appropriate to select staff who have excelled in their performance of duties, have broad experience, and have been directly involved in tax-related duties immediately preceding assumption of the role of instructor. In other words, staff training will include a large element of passing knowledge gained from experience on to the junior staff. Of course, some staffs have more aptitude for teaching than others, and it will be important to discern such differences.

Instructors will be selected from among staff who have a certain number of years' experience and who have successfully completed the Intermediate Training, taking into consideration their

performance on the job and training scores. Instructors will also be selected on the basis of character and leadership qualities suitable to instructors. Instructors will be appointed for Terms of two to three years. Upon completing their Terms of duty as instructors, they will return to their former posts, whereupon another front-line staff member satisfying the above qualifications will be selected to assume the vacated teaching post. Thus the staff with the best character, knowledge and experience and armed with the most up-to-date information will pass on that knowledge and experience to the junior employees. We expect this educational process to be highly effective and productive.

As noted above, certain measures will be required to select staffs who are suited to be instructors. The selection process will make use of the scores achieved in training (examination results, along with assessment of the staff member's leadership and ability to work with others). These work performance and character evaluations need to be implemented each year, recorded in the staff personnel records, and managed appropriately.

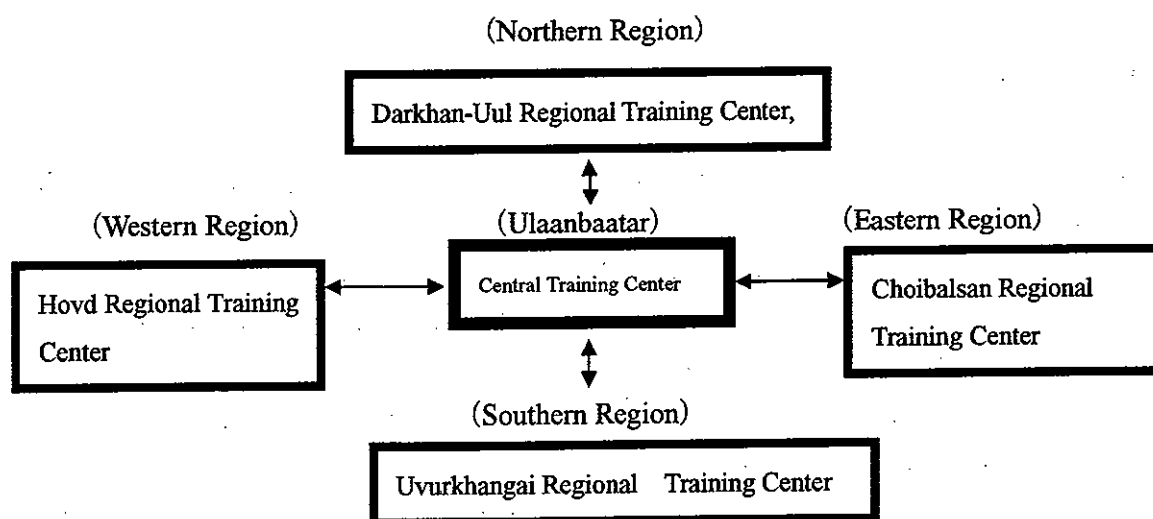
## (2) Enhancing Training Facilities

### A Central Training Center and Regional Training Centers

The Tax College will consist of a Central Training Center and four Regional Training Centers (north, south, east and west). Training will be provided at the Central Training Center or one of the regional training centers.

Currently two regional training centers are in use, one in the east and one in the west. The Short Term Action Plan recommends that additional training facilities be established in the north and south. If for some reason this project cannot be implemented in the Short Term Action Plan, it would be desirable to incorporate them in the early phases of the Long Term Vision.

A schematic view of the expanded network of four regional training centers is represented here.



## B. Central Training Center Facilities

- A stand-alone building will be used.
- As there will be about 9 to 13 staff including the Dean who will work in the facility, the Central Training Center will include the Dean's Office, Administrative Office, an Instructional Staff Room, two classrooms (one with capacity for 60 people and another with capacity for 30), a library and other similar facilities.
- Because one of the Center's functions is computer training, one of the classrooms will need to be equipped with computers and other vital equipment on a permanent basis. The hardware and software provided must be sufficient for training of operators in the use of the existing computerized taxpayer information system, third party information system and other systems. When the electronic filing system is introduced in the future, this facility will be able to play a major role in training the system's operators.
- Vehicles will be arranged for trips by instructors to the regions and to transport training equipment.

## C Regional Training Center Facilities

- Decisions on permanently posting instructional staff at regional training centers will be made based upon a comprehensive review. The review will take into consideration the frequency of training to be held at the center. In addition, training efficiency and traveling and other costs of assembling trainees at a central location will be compared with those for sending instructional staff to the regional centers as well as the training efficiency.
- Two classrooms should be provided so that sessions can be run simultaneously, divided into training types. At the minimum, each classroom should accommodate 30 to 40 trainees.

## 3.5 Training Locations

### (1) Prefectural Tax Office under the Jurisdiction of Each Training Center or Training Location

- (A) The Prefectural tax offices covered by each regional training center are as follows. In principle, training of staff for these tax offices (including Soum) will be provided centrally at the corresponding regional training centers.

**[Darkhan-Uul Training Center]** - Darkhan-Uul, Selenge, Bulgan Orkhon, Huvsgul  
(Northern Region) 5 aimags

**[Uvurkhangai Training Center]** - Uvurkhangai, Arkhangai, Bayankhongor,

(Southern Region) 5 aimags, Umnugobi, Dundgobi  
[Hovd Training Center] – Hovd, Bayan-Ulgii, Uvs, Zavkhan, Gobi-Altai  
(Western Region) 5 aimags  
[Choibalsan Training Center] - Sukhbaatar, Khentii, Dornod,  
(Eastern Region) 3 aimags

(B) Prefectural tax offices covered by Central Training Center are as follows and includes training for staff of GDNT, Ulaanbaatar City Tax Office and each region tax offices.

[Main Training Center] - Tuv, Gobisumber, Dornogobi  
(Central Region) 3 aimags

## **(2) Location of Training by Each Training Type**

When Mongolia's vast distances and inadequate transportation infrastructure are taken into account, providing efficient training will mean determining the most reasonable location for each type of training. Such a calculation must take into account the time required to travel to and from the Central Training Center or the Regional Training Center, and the budget allowable for travel expenses.

Taking all of these factors into consideration, we have prepared an implementation plan as follows.

### **A Introductory Training**

(A) Staff of GDNT headquarters, Ulaanbaatar City Tax Office, district tax offices and prefectural tax offices (Gobisumber) that are covered by the Central Training Center.

→ Central Training Center

(B) Staff of prefectural tax offices (including Soum) that are covered by regional training centers

→ Regional training center or the Central Training Center that has jurisdiction over the said area

Preferably, all new staff would be assembled at the Central Training Center for collective training, providing Basic Training in the form of Introductory Training. In this way, lectures need to be given only once, and the time and expense needed for instructors' travel and transporting of materials and equipment could be minimized. Because the number of new hires in the regions will likely be limited in number, the number of staff requiring lodging will be limited. More importantly, the collective experience of training together will promote bonding among staff and with the institute, which will serve to instill ethical principles and deepen tax workers' sense of belonging to the workplace. The benefits of collective training are that much

greater in a long training program such as the Basic Training.

Nonetheless, even after the establishment of Tax College in the Long Term Vision, the issues surrounding budgeting for travel will not easily be resolved. It may still be necessary to consider holding Introductory Training utilizing regional training centers as the next best alternative.

## **B Intermediate Training**

All trainees will be assembled at the Central Training Center.

This course contains a high level of specialization relating to specialist operations. It is intended to develop future managers, instructors and GDNT executive cadres, through a three-month training period in which all of the participants are assembled at the Central Training Center. The course aims to provide a forum where participants compete against each other, fostering an increased sense of belonging to the workplace and character worthy of a member of the society and a tax staff.

## **C Advanced Training**

Advanced Training consists of Manager Training and Senior Management Development Training. Manager Training is aimed toward those newly assuming the post of manager. This course will be implemented with all participants assembled at the Central Training Center. Senior Management Development Training is a training program implemented at universities and graduate schools both within Mongolia and abroad.

## **D Specialized Training**

(A) Staff of GDNT headquarters, Ulaanbaatar City Tax Office, district tax office, prefectural tax office (Gobisumber) covered by Central Training Center

→ Central Training Center

(B) Staff of prefectural tax offices (including Soum) that are covered by regional training centers

→ Regional training center that has jurisdiction over the said area

Specialized Training is a generic Term for a number of short Term training courses. The specific operational training provided corresponds to the composition of the staff in each region and the nature of the businesses for which they are responsible. As such, it is most efficient and effective to hold such training in each region.

However, centralized training will be considered in some training areas, depending on the number of participants and the training period.



## **E The Other Training**

The venue for the Other Training will be decided on a case-by-case basis, depending on the content of the training. Factors affecting the decision may include the following.

### **(A) Qualification Renewal Preparation Training for National Tax Inspector**

→Regional Training Center

Based on the content of the training program, it is similar to Specialized Training and can be dealt with at the regional level.

### **(B) International Taxation Training**

→Central Training Center

Some of the course content, such as English-language training, makes it more amenable to a central venue.

### **(C) Computer Training**

→Central Training Center

This training will use classrooms in the Central Training Center, where the equipment necessary for the training is installed on a permanent basis.

## 4. Training Curriculum

### 4.1 Issues Considered in the Course of Developing Training Curriculum

The training courses can be categorized as below:

1. Basic training course (long term course) aimed at enhancing necessary skill and technical knowledge required for tax staff;
2. Specialized training course (short term course) aimed at giving more sophisticated professional knowledge necessary for performance of duty;
3. Other training course (short or long term courses) designed to give special knowledge and expertise necessary for normal conduct of tasks;
4. Distance training course (long term course) on particular defined subjects to be provided via communication appliances such as post and Internet.

All courses should be systematized and organized so that all staff can attend necessary courses during their period of employment; and this study purports to assist in building up a solid system for human resource development of GDNT. Therefore, Training curriculum is prepared in a manner that is consistent not only with desired outline of training curriculum, but also with present circumstances of Mongolia

### 4.2 Purpose of Training Courses and Classification of Participants

Purpose, coverage and time of each course are defined as below.

#### 4.2.1 Basic Training Course (Long Term Training Course)

Basic training course is implemented in phased stages and is consisted of Introductory, Intermediate and Advanced training courses.

##### (1) Introductory Training Course

Objective	Acquirement of basic knowledge and ethics as a tax staff needed in the course of operation of newly recruited staff that is in their probationary employment period. This course is implemented in accordance with the "Employment rules".
Participants	All staff who are in their probationary employment period

Timing	Immediately after the employment based on purpose of the training. For the time being, within one year after employment because new employee is currently hired on a random basis when additional staff is needed due to retirement or resignation. (Note 1)
Duration	For the time being, approximately one month (actual days of the course are around 20) until recruitment becomes on regular basis and then approximately two months
Planned and sponsored by	Training Center
Instructor	Instructors at the Training Center
Location	For efficient and effective provision of the courses, it is appropriate to gather all participants (around 30-40 employees are recruited annually) at one place (Central training center), but for the time being, depending on travel and accommodation costs of participants the training could be conducted in the Central training center(Note2) and Regional training centers in Khovd Province and Dornod Province (Choibalsan) which are in east area and west area.
Contents	Ethics of a new employee as a tax official, basic knowledge of procedures of administration, tax theory and tax laws, procedures of taxation and collection, management of taxpayer information, financial and tax accounting. (Note 3) Examinations will be conducted on main issues

(Note1) "System for retirement and recruitment of staff on regular basis" should be established taking account of later years when number of the retirements is increased. This is mentioned in chapter3.1.

(Note2) In the case that the Regional Training Centers that are being planned in the southern and northern district in the Central Region are realized, it will also be implemented at these Regional Training Centers.

(Note 3) If new employees are graduates from a university with bookkeeping, accounting major, the training program on tax accounting should be implemented for about 10 hours. As regards to the staff who are unfamiliar with bookkeeping, accounting, their level of knowledge should be constantly improved by sending training materials and having them study by themselves prior to starting the course and providing them with necessary instructions and assistance for their self-study etc.

## (2) Intermediate Training Course

Along with aiming to give advanced knowledge and skill to perform tasks in a high professional manner to the experienced staff that is in certain years of employment, it is necessary to determine grounds and objectives of conducting training courses. If training with such grounds and objectives are implemented according to specialization and the participants are selected for the training courses, the effectiveness of training courses will be increased.

(Note) So called "Intermediate Training Course" that is currently being implemented as a preparatory training program for the "Qualification Renewal Examination" should be excluded from the supposed Basic training course (phased training program) and included into the Other training course. (chapter2.3.1)

### A. Training Course on Taxation and Tax Collection

Objective	<ol style="list-style-type: none"> <li>1. Acquire more sophisticated administrative processing ability and expertise as a tax staff and technical knowledge in taxation and collection of taxes</li> <li>2. Develop the participants as managers, teachers and chief staff in charge of on the job training</li> </ol>
Participants	<p>Recommended and selected from the National tax inspectors in their employment of 7-10 years</p> <p>Considering total balance of education and promotion of position, a number of staff who are taking this course shall be fixed by 60-70 percent of all possible participants</p>
Duration	For the time being, approximately one month (actual days of the course are around 20)
Planned and sponsored by	Training Center
Instructor	GDNT management staff in charge of a particular task, instructors at the Training Center, University professors
Location	For implementation of the purpose of the training course, GDNT management staff and University professors are supposed to act as instructors. The most appropriate way is to gather all participants at the Central training center, but for the same reason as Introductory training course, it could be conducted in the Central training center and Regional training centers.

<b>Contents</b>	<ul style="list-style-type: none"><li>• Course employs lecture and discussion method (seminar method) and practical study at the class</li><li>• Tax theory, main tax laws, tax dispute resolution procedures (including operation of tax dispute resolution council), case studies, advanced tax accounting</li><li>• International taxation (including English education), information processing</li><li>• Examinations will be conducted on main issues</li></ul>
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## B. Training Course on Tax Audit

Objective	<ol style="list-style-type: none"><li>1. Acquire more sophisticated administrative processing ability and expertise as a tax staff and technical knowledge in tax audit</li><li>2. Develop the participants as managers, teachers and chief staff in charge of on the job training</li></ol>
Participants	Recommended and selected from the National tax inspectors in their employment of 7-10 years Considering total balance of education and promotion of position, a number of staff who are taking this course shall be fixed by 60-70 percent of all possible participants
Duration	For the time being, approximately one month (actual days of the course are around 20)
Planned and sponsored by	Training Center
Instructor	GDNT management staff in charge of a particular task, instructors at the Training Center, University professors
Location	For implementation of the purpose of the training course, GDNT management staff and University professors are supposed to act as instructors. The most appropriate way is to gather all participants at the Central Training Center, but for the same reason as Introductory training course, it could be conducted in the Central Training Center and Regional Training Centers for the time being.
Contents	<ul style="list-style-type: none"><li>• Course employs lecture and discussion method (seminar method) and practical study at the class</li><li>• Method of tax audit, main tax laws, tax audit in different type of business, advanced tax accounting</li><li>• International taxation (including English education), information processing</li></ul>

For smooth and effective implementation of those two courses, they should be started at the same time in order to participants have same subjects together. However, in the present circumstances these three training centers have one classroom each and therefore, because of difficulty in starting training courses at the same time and taking same subjects together, the timing of two courses are scheduled at different periods until having enough classrooms and physical facilities.

### (3) Advanced Training Course

Considering the present circumstances of Mongolia, Introductory and Intermediate training

programs are sufficient contents as basic training program. However, it is essential for GDNT to develop human resources as a leader. Because tax management system has not been fully stabilized to prepare competent personnel capable of managing whole tax administration. Therefore, this training program is designed to develop management staff and train future leaders of GDNT within a short time.

Training will be implemented divided into the following two courses.

**A Management Training Course**

Objective	Foster the necessary knowledge and leadership required of a manager
Participants	Staff newly assuming management post
Timing	Immediately after assuming management post
Duration	About 1 week
Planned and sponsored by	GDNT Resource Management and Internal Control Division
Instructor	GDNT management staff, professors from the Administration Academy, etc
Location	Central Training Center
Contents	Management theory, administrative law, tax policy theory and other specialist knowledge required of a manager. A report will be required to be submitted after the completion of training.

**B. Senior Management Development Training Course**

Objective	Train future leaders and management staff of GDNT who acquire higher knowledge of law, economy, tax policy and international taxation
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Participants	National tax inspectors in the service of 10 years and more (completed Intermediate training course) and screened by the management meeting of GDNT from the people with good evaluation at work and good results at training course
Duration	Period specified by the universities or foreign training organization
Planned and sponsored by	Tax Administration and Methodology Division, Resource Management and Internal Control Division
Location	Domestic, overseas universities or Graduate schools, overseas training organization
Contents	Learning at domestic or overseas universities or graduate schools, or participate in the training course or seminars offered by foreign organizations, write a report on study subjects to the Director General of GDNT

#### 4.2.2 Specialized Training (Short Term Training Course)

For the smooth administration of taxes, it is required to respond appropriately with regard to management and tax audit techniques in a timely manner to tax law amendments and economical evolution. Therefore, National Tax Inspectors should take training courses on regular basis from the main sections such as Tax Collection and Tax Audit Division.

Through a system under which new recruits are employed on probation, each new employee (the person before participating in the Introductory course) should be trained at on the job and through training courses provided by the main divisions.

##### (1) Specialized Training

Objective	<ol style="list-style-type: none"> <li>1. Concerning the current issues of each divisions of GDNT, promote early response and enhance the ability to deal with them</li> <li>2. Acquire basic knowledge as a tax staff needed in the course of operation of newly recruited staff that is in their probationary employment period.</li> </ol>
Participants	<ul style="list-style-type: none"> <li>• Staff in charge of the administration at each division and office of UB city, its districts and provinces</li> <li>• Staff at the One Stop Service Center, each division and office of UB city, its districts and provinces</li> <li>• Operators at each division and office of UB city, its districts and provinces</li> <li>• Employees in their probationary period who have not taken introductory training course.</li> </ul>



Timing	As needed
Duration	Three to five days
Planned and sponsored by	Related division of GDNT, UB city tax office
Instructor	GDNT staff, UB city tax office staff in charge of that particular task
Location	Central Training Center, Local Training Centers, Aimags
Contents	<ol style="list-style-type: none"> <li>1. Give such expertise and skills required to make appropriate treatment for the current issues of each division, which would allow uniformed early resolution of such issues</li> <li>2. Acquire ethics and ability to perform task of a tax staff needed in the course of operation of newly recruited staff that are in their probationary employment period.</li> </ol>

#### **(2) On- the- job Training on Tax Audit**

Objective	Enhance professional skill and expertise of national tax inspectors with limited experience in tax audit
Participants	Selected from tax auditors in their service of up to 3 years
Timing	When organized by the tax audit division
Duration	As needed
Planned and sponsored by	State Budget, Revenue Control Division of GDNT
Location	Place of business of a taxpayer who is being audited
Contents	Train the participants to acquiring approaches and techniques of tax auditing on-the-job basis by granting a right to carry out tax audit and involving them in audit of large taxpayers that is being implemented by this division.

#### **4.2.3 The Other Training Course (Short Term Training Course)**

The following illustrates the framework of training course (the Other Training Course) necessary to implement tax management in Mongolia. In order words, this course is designed in a short- term view and its continuous implementation and enhancement of content thereof should be examined as needed.

**(1) Training within the Country**

**A. Preparatory Training Course for the Qualification Renewal Examination**

Objective	Acquire knowledge necessary to successfully pass the Qualification Renewal Examination for National Tax Inspector and updated information on taxes
Participants	National Tax Inspectors who have to renew their Qualification for National Tax Inspectors'
Timing	When renewal is required
Duration	About three days
Planned and sponsored by	Training Center
Instructor	Teachers at the training center
Location	Central Training Center, Local Training Centers, Aimags
Contents	Tax laws, relevant ordinances and resolutions, code of conduct of tax officials, financial and tax accounting

**B. Training for Preparation of Certified Public Accountants**

Objective	Give highly advanced knowledge of accounting necessary to administer and audit large taxpayers
Participants	National Tax Inspectors in charge of providing tax management, tax collection and tax audit for large taxpayers
Timing	At the time fixed by a provider of training course
Duration	For a period fixed by a provider of training course
Planned and sponsored by	Resource Management and Internal Control Division of GDNT
Location	Place fixed by a provider of training course
Contents	Have participants take the training for preparation of Certified Public Accountants organized by the "Accounting board" of the Ministry of Finance and Economy.

### C. Training on International Taxation

Objective	Prepare personnel capable of dealing with tax management at international level and handling with international taxation issues and fluently speaking business and daily English
Participants	Employees who are recommended for training course on international taxation
Timing	As needed
Duration	Approximately two weeks
Planned and sponsored by	Tax Administration and Methodology Division of GDNT
Instructor	Management staff at GDNT, Professors of universities
Location	Central Training Center
Contents	Give advanced knowledge and expertise required to handle tax management at international level such as on business and daily English, international tax treaties and international taxation issues Have the participants take examination after completion of the course

### D. Training on Computer Operation

Objective	Prepare personnel who acquired ability to use computers in the performance of daily tasks and information processing
Participants	Recommended and selected from operators and newly hired staff
Timing	As needed
Duration	Approximately three days
Planned and sponsored by	Training Center, Data Processing and Automation Division
Instructor	Management staff of the Information processing and automation department at GDNT
Location	Central Training Center, Local Training Centers
Contents	Enhance knowledge of computers and use of application programs in performing daily tasks

## (2) Overseas Training Course

Objective	Have management staff acquainted with experiences of tax management system of foreign countries in order to assist them in making contribution to enhancing tax management of own country
Participants	Management staff at GDNT
Timing	As needed
Duration	As needed
Planned and sponsored by	Resource Management and Internal Control Division of GDNT
Instructor	Teachers at the training center
Location	Countries like Turkey, Korea and Japan
Contents	Physical insight into structure and organization of foreign tax offices, administrative procedures and identified problems of that countries

### 4.2.4 Distance Training Course (Long Term Training Course)

By our survey we found that most of local tax staff are eager to study through the distance training. Therefore, it was decided to implement a pilot "distance training" for the first time on a requested subject of "accounting". Based on results of this course, further continuation or expansion to other subjects will be considered.

#### Distance Training on Bookkeeping, Accounting

Objective	Acquire basic knowledge as a tax staff focused on bookkeeping, accounting
Participants	<ul style="list-style-type: none"> <li>• Recommended and wanted to have further training on accounting</li> <li>• One training course will cover approximately 20-30 staff and all staff who wish to attend this course should have been covered within 2-3 years</li> </ul>
Duration	Approximately six months (for example, twice a year from January through June and from June to December)
Planned and sponsored by	Training Centers
Contents	1. Send the training material (Training material on accounting for use at Introductory training course) to the participants and have them study by themselves

	<ol style="list-style-type: none"> <li>2. Send exam questions once a month and have them answered. Papers are returned with evaluation and future issues to be considered</li> <li>3. Consider those who received more than 60 points of exam scores by the final evaluation as completed the course</li> </ol>
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#### 4.2.5 On-the-job Training Course

For purpose of enhancing administrative processing ability and expertise of tax staff with limited technical knowledge, it is necessary to set up a system under which each tax office has an official in charge of providing on-the job training on handling with problems arising in the course of execution of daily tasks.

Objective	Enhance administrative processing ability of employees with limited technical knowledge and encourage them for self-learning
Participants	Staff at each tax office
Duration	As needed
Planned and sponsored by	Employee in charge of on-the-job training * Employee in charge of on-the-job training is selected from those who completed the Intermediate training course
Contents	Working place should be the one where anyone at any time is able to freely exchange opinions on dealing with problems encountering in performance of daily function

### 4.3 Training Schedule

#### 4.3.1 Training Hours

Total training hours is 8 hours: 3 hours in the morning (9:00-12:00) and 5 hours in the afternoon (13:00-18:00 including 2 hours of self-study).

#### 4.3.2 Time Table

The following illustrates the schedule of the Introductory and Intermediate training courses. The schedule for other courses can be fixed similarly.

**Introductory Training Course**

	Morning 9:00-12:00		Afternoon 13:00-18:00	
First day	Directives	Structure of tax administration	Ethics of tax staff	Self-study
				Same
Middle of the duration			Exam	Self-study
				Same
Last day			Exam	Directives, Survey

**Intermediate Training Course**

	Morning 9:00-12:00		Afternoon 13:00-18:00	
First day	Directives	Ethics of tax staff		Self-study
				Same
Middle of the duration			Exam	Self-study
				Same
Last day			Exam	Directives, Survey

### 4.3.3 Schedule by Subjects

Schedule of each training course takes account of purpose of training course and level of knowledge of participants and nature of professional functions. The following is the schedule for the Introductory and Intermediate training courses.

#### Introductory Training Course

N <sup>o</sup>	Subjects	Hours
1	Ethics of tax staff	3
2	Structure and organization of tax administration	5
3	Tax theory and methodology	12
4	Package of tax laws and their interpretation and application	57
5	Accounting	10
6	Paper or document processing, administrative procedures of taxation and collection	15
7	Tax information processing, Operational instructions of application programs	6
8	Tax audit	6
9	Directives	2
10	Examination	4
	(Self-learning hours)	/40/
	Total /8h x 20 days/	160

Intermediate Training Course

**A. Training Course on Taxation and Collection**

Nº	Subjects	Hours		
		Lecture	Seminar	Total
1	Ethics of tax staff	2	-	2
2	Corporate income tax law	6	18	24
3	Individual income tax law	6	9	15
4	Value Added tax law	6	12	18
5	Excise tax law, General Tax law	3	6	9
6	Law on supervision of tax levy, payment and tax collection	6	8	14
7	Advanced accounting	12	-	12
8	Tax information processing	3	-	3
9	International taxation	9	-	9
10	Tax auditing methodology	6	-	6
11	Special lecture /discussion/			2
12	Directives			2
13	Examination			4
	/Self-study hours/			/40/
	Total /8h x 20 days/			160

Notes: Lecture can be conducted simultaneously together with tax audit course when possible.

**B. Training Course on Tax Audit**

Nº	Subjects	Hours		
		Lecture	Seminar	Total
1	Ethics of tax staff	2	-	2
2	Corporate income tax law	6	6	12
3	Individual income tax law	6	3	9
4	Value Added tax law	6	3	9
5	Excise tax law, General Taxation law	3	3	6
6	Law on supervision of tax levy, payment and tax collection	6	3	9
7	Advanced accounting	12	-	12
8	Tax information processing	3	-	3
9	International taxation	9	-	9
10	Tax auditing methodology	6	35	41
11	Special lecture /discussion/			2
12	Directives			2
13	Examination			4
	/Self-study hours/			/40/
	Total /8h x 20 days/			160

Notes: Lecture can be employed simultaneously together with course on taxation and collection when possible.



## **5. Third Party Information System**

### **5.1 Current Status and Issue of Usage of Third Party Information**

#### **(1) Interview at Headquarter of GDNT**

We had explanation about current status of operation and information gathering of the third party information system from the staff in charge at Resource Management and Internal Control Division, Data Processing and Automation Division and Audit Division of GDNT.

Currently, inputs into the database by PC processing are consisted of: i) customs information ii) VAT Invoice, iii) third party information paper, and iv) information of allocation and distribution of alcohol. System itself has no trouble and operates smoothly. In the future, it is expected that program development will allow the system to accept more information such as the information from State Registration Department of Immovable Property. "Loan information of banks", "subsidiary information", "auction information" and "special tax information (information regarding seals attached on liquor and tobacco)" were added to the third party information paper.

All input through VAT Invoice has been made manually at GDNT, however, substantial administrative delay is concerned because of huge amount of work and shortage of manpower. In the future, although input for local area related with provincial tax office will continue to be made at GDNT, in order to enhance efficiency of administration, it was decided that UB City tax office and district tax offices would input the collected information by themselves. In the end, there should be no problem if the information will be concentrated at the central database to be managed.

For the input into database through PC processing, efforts have been made to work with related authorities (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) to increase number of input information. However, there has not been much progress due to delay of the program development and insufficient cooperation.

While trying to strengthen collection from the third party information on paper base, it has not made much progress due to lack of cooperation from companies. For example, although 345 pages of material about counter parties concerning Eldenet mine was obtained at the time of tax audit in 2003, the company would not provide any information due to lack of manpower, even accepting to pay penalty charge. Efforts will continue to be made to gain cooperation from them.

For the utilization of the third party information, it was reported that they could identify some transactions, which were not recorded on the book through information from customs, which suggests the utilization of the third party information has been fairly effective.

As a current example of audits based on paper-based third party information, (i) taxation by estimate on the microbus operator (juridical person) and the driver (individual) and (ii) taxation by estimate on a taxi operator (juridical person) and the driver (individual) can be raised. With respect to the former, revenues are identified based on estimate using operation records by operator and by day (frequency and the number of passengers), name of driver and operation records by driver used from "administrative organ granting special permits relating to road

usage”, “administrative organ granting special permits related to automobile operation” and “State federation organ for transport operators”. Gasoline costs and other expenses are added up individually and the taxable income is derived. In the case of the latter, based on contracts signed between the driver (individual) and the taxi operator (juridical person) relating to lease of the car (juridical person is the lessor and the individual is the lessee), the fixed contractual amount paid on each operational day from the individual to the juridical person would be deemed to be the juridical person’s revenues while the same amount would be considered to be the minimum revenue for the individual. Gasoline costs and other expenses are added up individually and taxable income is derived. These cases of taxation is conducted by forming a project team comprising of about 10 tax inspectors from each district tax office within the Ulaanbaatar Tax Office jurisdiction and perform an across the board audit on such operators in the city and impose taxes. Using these case studies, Mongolia will be able to finally be able to use third party information effectively and realize appropriate and fair taxation, a sign that the taxation authorities have begun to tackle full-fledged tax audits.

However, while inspectors at Central area such as UB City are highly aware of the effectiveness of utilization of the third party information database, Local staffs are not really aware of it. The necessity to enhance such awareness is regarded as an issue.

## **(2) Interview at the UB City Tax Office**

The following is current status of operation of the system, collection and utilization of the information, which we confirmed at UB City Tax Office where the third party information is actually collected and utilized.

### **(A) Status of collection and utilization of the third party information in 2003**

In 2003, collection and utilization of the information has not been made as expected due to the following reasons:

- i) Although information was gathered to some extent, processing of such information tended to be delayed as the only one person was in charge of the task. However, input of the VAT invoice collected by the tax office has become conducted by the tax office itself in 2004. Besides, a staff was dispatched from Headquarters to be responsible for the task. Since then the processing has been made smoothly.
- ii) Although certain amount of information was collected in UB City, information gathering in each province is not enough.
- iii) Provision of information from Central Budget Revenue Control Division in charge of large corporations is only once for a year, which is not often enough.

### **(B) Status of operation of the third party information in 2004**

In UB City, the third party information system has been operating smoothly in 2004.

For example, regarding VAT Invoice, in the UB City district tax offices, other districts tax offices’ jurisdictional information except the district tax office’s own jurisdictional is gathered at UB City Tax Office and be allocated to each competent tax office. The information from local area other than UB City is gathered at Headquarters and is allocated to each tax office.

The information is effectively used at the Audit Division of the tax office. It was decided that tax collection staff would be evaluated for the information from this year, which help to enhance interest in such information.

(C) Operation Agreement concerning collection and utilization of the third party information of Director-General and Head Officer of Tax Office

According to "National Organization Management Law", Director-General is able to enter into an operation agreement with all tax office head officers directly.

Based on this provision, according to the operation agreement with Director-General, a tax office head officer of UB City has determined how many percentage of information they would use out of the their allocation and how many percentage of tax income to be increased. Out of last four years, the results of year 2003 shows that information collected by 35 corporations was used, which helped to discover substantial amount of fraudulence and be able to impose Tg 414.9 million of penalty. Compared with the previous year, number of corporations that utilized the information increased 1.6 times, and 2.5 times in terms of the amount of penalty. Looking at the status of the third party information gathering, 1,163 pieces of information is gathered, 442 pieces are utilized and Tg 263.9 million of fraudulence was discovered.

In addition, according to the information gathering measures for 2004, they asked 28 national organizations to provide the information. As of April 20, 3,338 pieces of information has been provided from 7 organizations. The information is in paper form.

The information gathering agreement for 2003 provide: i) collecting more than 200 pieces of information for five years, ii) penalty should be collected from 10% of information, and iii) utilizing 0.5% of information collected to audit.

(D) Objective of Collection and Utilization of the Third Party Information in the Future

i) Information Gathering from other National Organizations of Mongolia

The third party information is indispensable for efficient and effective audit, as such information is used for regular audit of corporations as well as used as a ground for selecting audit subject.

Currently, custom office is the only organization that is sharing information with national organizations of Mongolia through data system. It is necessary to make legislative preparations which will enable them acquire information from other entities. *Obligating by law should facilitate provision of information.*

ii) Information gathering from private companies

It is difficult to obtain information from corporations i.e., private companies rather than national organization. Rather, it is more effective, for example, that getting the information about gold holding from the entities that grant license under "Special License Law". Also, inspectors post the information of transaction counter parties, which they obtained at the time of audit, to the third party information paper and enter into the database. Information gathering from banks is conducted with the license certificate with signature of the head of tax office. Since discretion of whether information to be provided or not is at the hand of banks, it is difficult to obtain

necessary information. Although banks themselves are covered by the audit as a large corporation, it is not permitted to audit taxpayers' individual deposit account in general due to the privacy issues.

iii) Status of utilization of local database

Local database does not seem to be well utilized. In addition to the problem of management, as corporations in local area are not many and not so big, status of such corporations can be understood without information. Thus, awareness for collection and utilization of information among inspectors has not been enhanced. However, there is no problem with the link between Central area and Local area at the computer level. We can say there is no problem in hard system.

**(3) Future Issues to be Considered**

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.

Another important element is the change in the awareness of all inspectors of collection of third party information. For example, the use of third party information in tax audit will lead to uncovering of tax evasion and other similar acts resulting in the raising of performance evaluation of that inspector. This will lead to a stronger interest among inspectors for use of information. However, it may be human nature for an inspector to become not overly enthusiastic about collecting third party information for use by another inspector. Thus, to ensure collection of volume of effective information, a posture which each inspector would actively collect information even if it does not directly benefit the collecting officer personally

but for the good for the collective whole will be important. To achieve this, positive evaluation must be given not only to the inspector who made effective use of information but also to the inspector who collected the information. For example, if a significant tax audit result is achieved by the use of third party information, a commendation can be given to the collecting inspector in addition to the one given to the inspector achieving tax audit result.

## **5.2 Current Status and Issue of System Operation and Management**

### **(1) Current status of system operation and maintenance**

The third-party information system is operating normally. At present no serious problems have occurred concerning the server and hardware.

One problem with the PCs used in this system is that Internet connections are not transferred through the intranet. Due to the importance and sensitivity of the information in the third party information database, privacy and security are vital. A security failure could give rise to serious problems.

Since an electronic reporting system is due to be introduced, the security of Internet connections must be given the closest attention.

### **(2) Organization of system operation and maintenance**

#### **1) GDNT**

Currently, the GDNT system server poses no major problems, because the officers who had been in charge of the server from the very beginning continue to be responsible for it. In the future, the GDNT will need to make provision for personnel and environment changes, in case changes have to be made in the staff in charge of system operation and security.

#### **2) Tax offices**

In areas outside the capital, resident operators are in charge of system operation and currently no problems have occurred. The work scope of the resident operator is narrow, and personnel appointed and dispatched to the local area by the GDNT provide server protection and service. In some cases, the server is transported to the central area for maintenance. In the future, when the third-party information database comes into widespread use, server maintenance will have to be provided promptly. The necessary human resources must be prepared to handle this necessity.

### **(3) Controlling system operation and maintenance**

#### **1) The end user**

The use of the information in the system must be controlled and monitored, both by controlling system operation and managing information-utilization indicators. Currently, output paper and third-party paper-document are used as management indicators.

However, data monitored by resident operators are not registered or retained. Resident operators can connect directly to the Internet from the computer terminals of the third-party information system, giving them access to the information in the third-party information system. Systems must be put in place to control the list of information used by resident operators and other end

users, in terms of systems, structure and environment.

## 2) System management

The GDNT has procedures for accessing the system technical room. In practice, however, this procedure is not followed. In tax offices, the server is located in the ordinary work area, so there is no guarantee that people cannot access it without permission.

In Mongolia, system control is not yet established and the seriousness of this problem is not sufficiently appreciated. Because of the confidentiality of the information entered into the third-party information system, it will be necessary to create a structure that tracks and records system access.

## **(4) Procedures and Documents Related to System Operation and Maintenance**

The procedures and documents related to system operation and maintenance have not significantly changed since the start of the project. If a system breakdown occurs, the documents used to recover the system will be indispensable. Although currently backup file measures are sufficient, in the future, to reduce system risk, the relevant documents will have to be compiled each time the system version is renewed. Insufficient compilation of relevant system documents would create complete dependence on the workers who know the system and the various problems that can arise in it.

Procedures on utilization of third-party information system have been developed and are being followed. However, the system is still poorly developed in terms of confidentiality with respect to end users. The issue of confidentiality is vital in gaining the trust of the taxpayer, who allows the tax administration to use information. This is an extremely important issue that must be addressed thoroughly, from senior management down.

## **(5) Training**

Data Processing and Automation Division of the GDNT provides resident operators with the necessary training to operate and maintain the third-party information system. Currently no problems have occurred regarding the system operation and maintenance and no reports have been received of resident operators facing serious operational problems. Eventually training will have to be implemented so that when personnel changes are made the system can continue to run smoothly.

## **6. Public Relations, Services and Tax Education for Taxpayers**

### **6.1 Public Relations for Taxpayers**

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

As improvement of execution system is the issue inside the tax office, any measure can be taken against so-called visible subject. On the contrary, public relations to the taxpayers for seeking their cooperation have to be made for invisible subject. Thus, how to focus and how to carry out such measure will be a big issue.

In terms of number of taxpayers in Mongolia, it is ranked as 1) live stock tax, 2) vehicle tax, 3) contingent income tax; in terms of amount of tax, ranked as 1) corporate tax, 2) value added tax and 3) withholding tax.

The taxes which have many tax payers are all imposed by pro forma standard taxes, On the contrary, the taxes which have large amount of tax are all computed by tax accounting.

Major items of public relations plan scheduled for 2004 in Mongolia are as follows:

- *Holding the Day of Taxpayers: Distribution of Tax Information News Paper (May)*
- Radio broadcasting by GDNT Director-General (once a year)
- Invitation of essay regarding tax for high school students (May)
- Regular broadcasting contract with Mongolian Radio station for 15 minutes broadcasting per week
- Spot broadcasting contract with Mongolian Television for 2 minutes spot program twice a week
- Once a month regular publication contract with "Unen" newspaper
- Explanation of firearm registration on newspaper (April)
- Explanation of value added tax on newspaper (May)

We understand that the Day of Taxpayers is regarded as the largest public relations event and other public relations activities will be implemented as needed.

On the other hand, when looking at tax payment circumstances in Mongolia, we can see the following characteristics:

- Tax payers are relatively few compared with population
- The land of Mongolia is extensive and has variety. Tax rate is different depending on the area.
- Tax payment often starts only after registration.
- There are some tax offices with only one staff.
- There are many penalties related with tax.

Considering above points, we think it is desirable that the PR for invisible taxpayers should be implemented with the focus from the following standpoint:

- ① In order to increase number of taxpayers, make tax payers understood the necessity of learning general tax knowledge, especially utility and need of tax.
- ② Select public relations media suitable for variable tax payers (newspaper, radio, television, video, web site, etc.)
- ③ Consider the variety of people by areas and not regard them as identical. Part of the description should be changed according to the area.
- ④ As well as for publicity of the due time, timely public relations should be conducted for registration.
- ⑤ Select the uniformed and extensive public relations method for tax category for which many taxpayers are relevant.
- ⑥ Select the public relations methods taking account of the fact that there are relatively few tax categories have large tax amount (public relations method suitable for concentration of the area, business affiliations, existence of business group)

## **6.2 Overview of Public Relations Commercial for Taxpayers**

In the Project, three commercials have been produced for public relation activities aimed at taxpayers. These commercials will be aired between programs in for totally one hour per day on the Mongolian state television network during a 2 week period from May 9 to May 13 surrounding the “the Day of Taxpayers”.

### **(1) Commercial 1: Let’s Pay Our Taxes**

#### **① Content Summary**

It is composed of a child’s recollections and narration. The scene of the reverie is a figure of a child studying. The scene flows from here to the classroom, police, fire station and to a hospital. In parallel, a narration is provided.

“When I grow up, I want to be a good taxpayer. The teacher taught me that, if there are no more taxes, there would also be nothing left”.

“So, let us all pay our taxes”

Ending with the logo mark of GDNT.

#### **② Aim and Objective of the Production**

Disseminate information on the role played by taxes in a soft tone to the citizens and raise awareness of tax payment.



③Format

In Mongolian and runs for 15 seconds.

**(2) Commercial 2: Bridge to Taxes for the Taxpayer – Taxpayer Service Center**

①Content Summary

A female announcer introduces the Taxpayer Service Center

“A new service has been initiated for the taxpayers”

Scene of taxpayer registration

Tax return filing reception scene

Scene where advice is being given to a taxpayer

“Taxpayer Service Center provides familiar services”

Introduction to the Taxpayer Service Center using a telop

Ending with a GDNT logo mark

②Aim and Objective of the Production

*In Mongolia, Taxpayer Services Centers are established in tax offices to promote payment of taxes but this has not been fully understood by the citizenry. The commercial aims to increase the number of taxpayers accessing such services.*

③Format

In Mongolian and runs for 20 seconds.

**(3) Commercial 3: Taxes for the Future of the Citizens**

①Content Summary

Information portraying taxes forming the foundation for living is provided using imaging and computer graphics

Scene of a hospital

To live a healthy life (CG)

Scene of children playing

For the future of the children (CG)

Scene of birds taking flight

Scene of a senior smiling

For the future of family (CG)

Scene of people in the street

For a happy life (CG)

Ending with GDNT logo mark.

② Aim and Objective of the Production

With effective insertion of information of tax being the foundation for national life today and in the future using computer graphics, instill its importance.

③ Format

In Mongolian and runs for 30 seconds.

### 6.3 Tax Payers Services

For the purpose of increasing self-assessed tax payers, the tax authority opened up “Taxpayers Service Center” inside the Bayongol Tax office on October 1, 2003, as a part of service for tax payers, and opened up the forth “Tax Payers Service Center” inside tax office of Ulaanbaatar City on May 10, 2004.

“Tax Payers Service Center” opened at first at Bayongol Tax Office was attracted people’s attention with the report through news paper and radio, cited as one of the top biggest news of 2003.

Opening of “Taxpayers Service Center” allowed the taxpayer to do variable things at one site, also allowed them to register even during the absence of the inspector in charge, which has enhanced convenience for taxpayers.

The operations of the Taxpayers Service Center are as follows:

- ① Registration (registration to the database, process individual information into file)
- ② Helping tax return (assistance to the corporation with only one person)
- ③ Advice (wide range of assistance at the time of incorporation)
- ④ Acceptance (acceptance of documents from tax payers)
- ⑤ Issuing of certification (issuing of certification of tax payment)

Eight staff who have i) plenty of experience, ii) high administrative processing ability, iii) strength in computer and iv) good reception attitude, are placed at “Tax payers Service Center”.

It means 8 people (40%) were transferred out of 20 staffs that had been in charge of carrying out audit and guidance to individual taxpayers, to the position where they will wait for the contact from taxpayers to provide services. That implies the focus of the service has been shifted.

Thus, GDNT intends to upgrade the service of such centers and increase their number as well.

Current situation of 4 places where the Taxpayer Service Center were set up are as follows:

- i) 20 inspectors in charge at Tax Payer Service Center
- ii) Number of taxpayers : approximately 57,000

At Bayangol Tax Office, one inspector used to be responsible for approximately 170

households. After this change, however, the remaining 12 staffs are responsible for about 270 households per person.

For that reason, they showed their view that achievement of the plan originally expected at beginning of the year became difficult.

Effectiveness of service may not be decided immediately due to its difficulty of measurement. However, when looking at "Taxpayers Service Center", the staff with high audit ability have been selected to be placed there, it is clear that the amount of administrative work allocating to audit at the tax office have been reduced.

Although tax administration focusing on services is one ideal model, it is also true that effectiveness obtained from service is limited in tax administration.

Consequently, it is important to steer clear of big move during the time of good economy, consider overall circumstances surrounding taxes, not leave anything behind, and seek the ideal model to be realized. At the same time, it is necessary to properly verify the results of Taxpayers Service Centers; carry out enough review regarding coordination with existing administration; contents, scale, location, period and otherwise of the service, in order to develop the environment which may bring sufficient utility of the services.

## **6.4 Tax Education**

### **6.4.1 Basic Thinking**

Taxes are essential for the state and has relevance to all citizens and it would not be an exaggeration to say that consequence of taxation determines the state of the country and the citizens making understanding of tax a necessity.

Tax education to deepen the understanding of taxes targets all citizens and is an education that is broad and all encompassing.

In order to educate the people from an early stage, education in school is effective and from the importance of tax, tax education should be implemented as an integral part of school curriculum. However, the state pf school education, there are hardly any classes being given until the higher education level.

On the one hand, GDNT, from the perspective of securing tax revenues to meet the fiscal demand of the state, wishes to implement tax education at the school level in order to maximize the taxpayer cooperation.

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

### **6.4.2 Tax Education in the School Curriculum**

In promoting tax education, method of implementation, contents, time and timing are important but the contents are thought to be determined according to the level of cooperation given by the Ministry of Culture, Education and Science.

At this point in time, the details of the cooperation remain unclear and from the following perspective, we would propose implementation of tax education at the elementary schools.

### **6.4.3 Tax Education in Elementary Schools**

Tax education at the elementary schools should be conducted with the objective of making the citizens aware of the importance of tax from an early stage and implemented for children who is at a grade level that is able to comprehend the topic.

In such a case, the contents should be tailored to that appropriate for elementary school audience simple and easy.

Based on the above guideline, following is presented as specific preparation guidelines.

- ① Implementation should start at the higher grades
- ② Teaching materials should be paper-based such as pamphlets and video which is easy to appeal visually
- ③ Tax only contents has the tendency to be too heavy and lead to aversion for taxes and should be avoided
- ④ In order to avoid the feeling of burden and aversion provide explanation of projects or business in which the state is supporting the people and similar topics that passes along the message to the audience that it is the tax revenues that are making such possible
- ⑤ For the time being, as it is expected to be used as a supplemental teaching material, make visual materials such as video to be 15-30 minutes in length
- ⑥ Contents should indicate the size of the state budget, main expenditure items and also show specific examples such as by indicating of Tg 1,000 of taxes paid for establishing and maintaining hospitals, Tg 350 being used for roads, Tg 400 for preparing water supply.
- ⑦ Pamphlets should be distributed at the same time with a 1page summary of above contents to be used also after the class
- ⑧ The pamphlet should be posted at the school bulletin board during Taxpayer day to provide information to students who have not taken classes in tax so that some level of tax knowledge is spread to elementary school students nationwide.

## **7. Tax Accountant System**

### **7.1 Current Condition of Certified Public Accountants**

According to the information from the Ministry of Finance and Economy of Mongolia, during 11 years since the certified public accountant examination was introduced in 1993, 1,100 people have been qualified as Certified Public Accountant (CPA). A certified public accountant system was put in place to organize and conduct qualification examinations, to grant qualifications, administer the work of CPAs, and to establish and enforce rules and code of ethics for the industry. Currently 38.3% of CPAs are working in enterprises, 31.7% in state organizations, 18% in audit organizations, 9.8% in educational organizations and the remaining 2.2% in other sectors.

200 people who hold CPA designation work in 46 auditing companies and are primarily engaged in the auditing of financial statements of the enterprises. In the course of financial reports of enterprises, the CPAs also audit the tax computations. However, the scope of work of auditor is limited. According to the current audit law, the following organizations are obliged to undergo audits.

- ① All types of joint stock companies registered at the stock exchange
- ② Enterprise with initial capitalization of Tg 30 million and more
- ③ Enterprise planning to auction all of its assets.
- ④ Enterprise and organizations with foreign investment.
- ⑤ State and of quasi-state enterprises.
- ⑥ Banks, financial institutions and insurance organizations
- ⑦ Securities companies that conduct broker and dealer activities and investment funds

#### **7.1.1 Eligibility for Certified Public Accountant Examination**

The designation of certified public accountant is regarded highly among the professional degrees in Mongolia.

The eligibility to take CPA examination is granted to experienced people who have graduated from accounting faculty of a University with the degree in accounting and who have had at least 2 years working experience in an accounting field in enterprises or banks. Most of the people applying for the examinations have graduated from full-time studies at universities while those who are graduates of evening or correspondence course tend to be self-employed or working in enterprises and only a minority of them take the examination. Those who successfully passed the examination are eligible to become CPAs but only after making an approval is granted to the application for the qualification and register as a member of the association.

### **7.1.2 Acquisition of CPA Designation and Registration**

According to the Law on Certified Public Accountants, a Mongolian citizen becomes a CPA by passing a CPA examination, which is organized under the Ministry of Finance and Economy and held annually. This examination consists of accounting theory (finance, expenses, management accounting, financial analysis, international accounting standards), accounting practice, audit practice (including international accounting auditing standards) and law (commercial law and tax law) . By successfully completing the examination, the person becomes eligible to apply for the designation and upon registering with the certified public accountant association and becoming a member, the person is permitted to practice as a CPA. In practice, all those who have qualified have become members of the association.

The membership of the association total roughly 1,100 as of December 2004 and 80 % of the members are practicing in Ulaanbaatar. At the time of registration, a registration fee of Tg 40,000 is paid to the state and there is an annual requirement to complete 2 weeks training for which the CPAs pay Tg 60,000. The course is also open to those who are aspiring to become CPAs and is a major source of revenue for the association. The CPA Association was established with the purpose of protecting CPAs' rights and also to compile the opinions and views of the CPAs and in some cases present such views to the government.

### **7.1.3 Current State of CPA Activities**

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 and 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.

Ministry of Finance and Economy, based on the fact that 50 % of CPA's activities is audit, 30% consultancy (including tax consultancy), 20% in others, has taken the position that " One of the important conditions to increase tax revenues is to improve accounting records and the quality of financial reporting. From the 2001 audit results, 65% of enterprises prepared financial reports and the Enterprise and Organization Income Tax (EEOIT) was Tg 43.8 billion. In comparison, in 2003 the submission of financial reports by enterprises reached 85% and the amount of EEOIT increased to Tg 53.7 billion that was an increase of Tg 10 billion. This increase is the result of not only the expansion of business and tax administration activities but also the result of, submission of financial reports and auditing activities. An additional item of importance is creation of a system that will enable provision of tax instruction and consultancy to the enterprises implying a call for the early establishment of a tax accountancy system.

### **(1) Audit Activities**

According to the Law on CPAs, the CPA shall conduct "Audit activities" and in other words, audit activity is within the exclusive scope of work of CPAs. The number of enterprises in Mongolia has reached 30,000 and 20,000 of them are operating in Ulaanbaatar. According to law all of these enterprises are obligated to be audited, however enterprises with a single shareholder are not subject to audit. One auditing company employs 12 CPAs and 30 contract staff and performs audits on 270 enterprises. Its principle activity is auditing but when there is a request from clients, it will, based on a separate contract, prepare tax returns. Roughly 10% of its clients fall into this category.

In 1999, the level of compensation of a CPA was more than ten times that of civil servants (in a case of partner level compensation, it was 2 – 4 times this level). The audit fee is stipulated to be Tg 5,100 per one hour. This is not always adhered to but in no case does the remuneration fall below this level. Sometimes experienced CPAs have higher remunerations. According to information from a customer enterprise of an audit company it can be seen that medium sized enterprises pay annual audit fees of Tg 300,000 and audit period is 1-2 days each half a year.

### **(2) Tax Consultancy**

Apparently, audit companies are frequently contacted concerning tax related issues. The enterprises do not have sufficient understanding about what items can and cannot be deducted from taxable income and they frequently contact audit companies concerning this issue. Enterprises often consult with the audit companies rather than with the tax offices for questions regarding taxes. According to information from enterprises, a check of the tax returns is made during the time of an audit.

In terms of the fees for making tax return, according to the information from an auditing company, it differs depending on the scope of activities of the enterprise. Large enterprises rarely seek assistance in preparing tax returns and many medium sized enterprises request this kind of service and the fee is Tg 50,000. Among the tax inspectors, there are people, who successfully completed the CPA examination, however it is not allowed for a civil servant to conduct audit activities. CPA can become a tax inspector upon request, however vice versa is prohibited (for a civil servant to conduct CPA activities).

### **(3) Fees and Remuneration for Performing Audits and Tax Returns**

#### **1) Audit Fees**

The joint decision of Audit Worker Association and management of CPA Institute made the decision on "Minimum audit fee and responsibility" made on 27 December 2002.

① Audit fee shall be calculated based on Article 11 of the Ethical Responsibilities of CPAs

and the minimum hourly fee shall be Tg 5,100.

- ②The fee for audit of small, medium enterprises, government and non-government organizations shall be set at 5 times or more of the minimum fee. In terms of large enterprises and foreign affiliated enterprises, and projects, depending on the complexity of the tasks and special requirements such as preparation of English language audit reports, the fee shall be set 10 times or more of the minimum fee.
- ③The minimum limit on audit company's working period shall be 10 working days.
- ④Violations of the minimum wage amount shall be subject to disciplinary actions.

## 2) Fee and Remuneration for Preparation of Tax Returns

The average fee for preparing a tax return is Tg 50,000 MNT per one working day or 8 working hours. It is Tg 30,000 for small and medium enterprises generally requiring 1 – 2 days once during each semi-annual period. . .

## 7.2 Issues Facing the CPA System

Compared to the 31,000 enterprises that are required to be audited, an exclusive function of the CPAs, the number of CPAs is very low. As can be seen below, this is a major issue that is confronting the CPA system. The decision on “Minimum audit fee limit and Compliance with the Rules for Ethical Responsibilities of CPAs” jointly made by the Audit Association and management of CPA Institute on 27 December 2002, stipulated that the “Minimum limit of audit activity period is not less than 10 working days”. In reality, this is very difficult because if it is assumed that 1,100 people work with 46 audit companies, the number of enterprises that could be covered by audit at the end of 2003 is 3,356, while the remaining entities were not being audited.

If it is assumed that all 31,000 enterprises are audited as required, one auditing company would need to audit 673 enterprises and this would mean 56 entities in a month. According to one client enterprise, audits are conducted semi-annually with each audits taking 1 – 2 days. If this generally reflects the actual state of affairs, then, it is not consistent with the above recommendations and raises doubts as to the degree of compliance with the independence, fairness, transparency, accuracy and legality required of CPAs.

## 7.3 Current Situation of Taxpayers' Tax Returns

Mongolia has been undertaking comprehensive reforms to its tax system including the introduction of a new Accounting Law in 1993. Under the law, taxpayers were required to file tax returns according to tax classifications and the need for tax accounting has been heightening for both the taxpayers and the tax administration. .



Under the current tax administration organization, tax authorities scrutinize all of the documents that have been submitted in order to confirm the amount of profit or losses that have been reported in the tax returns and financial reports. If a tax accountant had completed the returns on behalf of the taxpayer, the number of errors and discrepancies in interpretations would decline significantly.

There are 365 tax inspectors in charge of tax audit but such a level is not sufficient to perform audits of the contents of tax returns.

Tax accountants through their role of representing enterprises in performance of taxation obligations, can significantly contribute to the increase in the level of accuracy and reliability of what is contained in the tax returns, a reasonable rationale for the need for the existence of a tax accountancy system. Taxpayers file tax returns along the lines of profit and loss statements that are prepared and classified according to the requirements of the taxation authorities. However, *due to unclear accounting treatments and the existence of administrative agencies that are lacking in their level of cooperation in providing information to GDNT, a significant proportion of taxpayers file reports using differing amounts and invoices and using original documents that are not supported by taxpayer identification numbers.*

If an obvious error is found and not corrected by the taxpayer, a tax will be reassessed after the closing of the accounting year. In principle, all returns filed by taxpayers are subject to review and audit of registered tax accountant and when required reassessments are made. There are some additional issues that arise in the course of performing such reassessments but a summary of the issues relating to taxation are summarized below.

## **7.4 Issues Relating to Tax Reporting by Taxpayers**

### **7.4.1 Problems within the System of Tax Return System**

In tax accounting for calculating the taxes, currently the bookkeeping accounting standards are not being followed. Bookkeeping is treated as a subject matter for accounting in university curriculum but is not used in teaching materials for the general public..

On the other hand, in the prior tax reform, there was a lowering of corporate income taxes and the taxpayer perception of heavy taxation appears to be waning and the environment for tax returns is beginning to see improvements. However, in the event that there are material increases, quantitatively and qualitatively, the contents of the returns, situations where the taxpayers would not be able to cope with such changes can be seen as likely. Nevertheless, placing all of the burden of dealing with taxpayers with the Taxpayer Service Centers would be an overwhelming burden on the centers. So long as the self-assessment system assumes filing by the taxpayer, the taxpayers need to take responsibility for the filing. Having CPAs to

take on tax returns as additional function is an option but from the view of fairness, this would not be desirable.

If CPAs were to become responsible for auditing and taxes for all enterprises, even if 1 CPA can look after 10 enterprises, 3,000 CPAs would be required. If the number of CPAs is increased dramatically, a question of dilution of quality arises. The above arguments make a potent case for the need for the establishment of a tax accountancy system.

Mongolia introduced an accounting system following the International Accounting Standards in 1994 and placed an obligation to enterprises and other organizations to prepare financial statements using the accrual principles. However, no clarifications have been made with respect to preparation of tax returns and there are no provisions in the tax laws defining which accounting standards to be utilized in the preparation. There are some signs that responsible tax officials tend to demand tax returns based, not on accruals but on cash accounting basis. In many cases, the awareness of the differences between financial accounting and tax accounting are lacking on the part of both the taxpayers and taxation side. GDNT has been considering providing for accounting in the tax laws, clarification of accounting in the tax laws, and rules on tax accounting under the tax laws and financial accounting under Accounting Law as alternative measures to address this issue. However, none has been adopted and the confusion still remains.

The level of accounting knowledge differs according to the size of taxpayer operations. Large enterprises employ CPAs as a staff in charge of finance and, on the whole, it does not have problems in accounting. However, the level of knowledge and skills of workers who are in charge of its units and branches differ. And there is a wide disparity between the knowledge levels of individual accounting staffs of small and medium enterprises with few staff.

#### **7.4.2 Problems with Tax Reassessment Process at GDNT**

It is inevitable that the taxpayer should reflect all items reflected on tax return on the loss and gain statement as well. However in order to avoid taxes, there are many cases of reducing taxable income without any basis. On the other hand, it is difficult to determine whether main information for taxation is correct or not. For example, taxpayers change the invoice in order to reduce customs tax. And in terms of EEOIT uses different invoice to unjustifiably increase the expenditures and reduce taxable income.

#### **7.4.3 Problems Faced by the Organization of GDNT**

Aimag, city and district tax offices receive financial report from enterprises and organizations within its jurisdiction and currently about 85% of the enterprises prepare financial statements. However, there is insufficient situation in requiring consolidations, retention of records and

preparing financial reports in accordance with the Accounting Law. Many of the management of enterprises do not appreciate the importance or the necessity of retaining records and preparing financial statements according to the accounting principles and performing business analysis using accounting records. The apparent reason for this is lack of action taken by the tax authorities even if no records are being kept.

#### **7.4.4 Principle Issues in Tax Accounting**

Currently a taxpayer prepares 18 types of tax returns. And based on the returns, Data Processing and Information Division processes 45 types of statistical data and documents. Summary of tax accounting and issues relating to the principle tax categories are as follows:

##### **(1) Income Tax on Enterprises and Organizations**

Currently, enterprises and organizations prepare returns and utilizing figures from the sales ledgers, profit and loss statements and general transaction data relating to these, they compute the deductible expenses and obligations. However, most taxpayers are not used to keeping accounting records and compiling primary documents. This negatively reflects on the correct preparation of tax returns. In addition, procedures required under the international accounting standards and those that are required under the Tax Law are mutually conflicting and fundamental adjustments would likely be required to make parts of financial accounting applicable to tax accounting.

Problems are also being faced in preparing tax return by enterprises and organizations. For example, at the time of calculating the taxable income, taxpayers fail to recalculate the net income figure in “report of correction of difference between financial statements and tax reporting” to taxable income. And even if this were performed they are being performed incorrectly. In other words taxpayers and some tax administration staffs do not have sufficient understanding and knowledge of the adjustment method. The reasons for it could be: 1). The recalculation of the difference does not reflect report of the difference 2). Enterprise and organization do not keep tax related records or 3) relationship between the filing and the tax returns submitted by enterprises and organizations has not been defined

##### **(2) Individual Income Tax**

1) According to the Individual income tax, the legal entity that pay wages and salaries to workers or civil servants withholds amount from the wages or salaries that correspond to the tax amounts and prepares withholding tax returns. Salary table, cash notebook and other relevant documents are needed to prepare this return.

2) Individual proprietors are required to perform own income and tax calculations and to submit self-assessment to the tax office. However, the tax authorities do not possess the means to enforce compliance. Even if GDNT possessed such capabilities, that those who understand the taxable income calculation are a minority is a problem. This can be attributed to the under-developed state of taxpayer education. Although it is time consuming, education and raising public awareness will need to be undertaken through issuance of guides, publications and other means.

3) The entities paying salaries and wages are required to pay the withheld taxes to the tax administration within a stipulated period, namely by the 10<sup>th</sup> of the month immediately succeeding the month in which the withholding was made. In addition, the citizen has to pay his or her annual tax by 10<sup>th</sup> of February of the next year. But the self-employed citizens very rarely pay taxes according to the above principle. Every month most citizens pay the tax amount determined under the type stated in “Law on imposition of tax on self-employed persons, whose income from work and services is impossible to define”. However, it is clear that in reality they pay much less than the tax amount that should properly be paid. This raises an issue of lack of fairness. The existence of the law has acted to increase the sense of unfairness held by enterprises. As a result, some enterprises choose to dissolve so that they can take advantage of fixed taxed payments. This has to be identified as a major issue from the point of view of state’s fiscal revenues.

### **(3) Value added tax**

1) VAT payer must support all transactions with original documentation and in each sales issue a VAT invoice indicating the VAT amount. Sales book and purchase book are kept to calculate the VAT and the taxpayer in making entries into the register should note the applicability of VAT, exemption or whether the transaction is import or export..

2) VAT payer has to pay VAT on the sale of products and services within 15<sup>th</sup> of the next month. The VAT imposition and collection on imported goods are performed by Customs Authority together with customs tax and monthly tax return should be submitted within 10<sup>th</sup> of the next month, and at the end of the year return should be submitted to the Ministry of Finance by 15<sup>th</sup> of January of the next year.

3) The sale by self-employed persons is not possible to be determined according to the “Law on imposition of tax on self-employed persons, whose income from work and services is impossible to define”. Therefore, it needs to be pointed out that in most cases VAT

payment goes without payment is another problem that exists.

#### **(4) Other main problems**

1) With respect to issues relating to tax accounting, it is essential, as an obligation of the state, to conduct public relations, advertisements and education to the taxpayers regarding the obligation to pay taxes. The lack of knowledge of accounting on the part of the taxpayer can be raised as a reason for the tax administration not functioning at an adequate level. Therefore, double entry bookkeeping (recording) and preparation of financial reports should be taught to the taxpayers. And make it clear that corporate income tax should be calculated by calculating taxable income with making adjustments to corporate profits calculated using the International Accounting Standards and by the provisions of the tax law. And implement this uniformly across the country as the corporate income tax calculation method.

2) In addition, it is important to consider not only taxpayer's position but also position of GDNT. GDNT is under pressure to create an accounting system for its own use. Enhancements need to be made to the GDNT organization and management. Introduction of a tax accountancy system is needed. Over the longer term, a fundamental reform of taxation (collection), tax payment system should be undertaken for tax is a crucial and truly important issue for the country.

3) It is necessary to correct the temporary and regular inconsistencies between the financial statements and tax returns that arise due to the lack of clarity in the relationship among the tax law and the provisions.

. For example 7189 citizens in 2001, 8539 in 2002, 9536 in 2003 were subjected to disciplinary taxation due to omission of tax amounts in the accounting books or errors in audit reinforces the fact of under-development of accounting record keeping relating to taxes.

4) Business conditions have improved in the state. Improved management environment for the enterprises leads to increased number of incorporations among individuals. As of the end of 2001, some 22,000 juridical persons were registered and this has increased to 35,000 today. Trend is for increases both in terms of the number and in types of industries. However, in spite of this, it is the problem that there have been no improvements in accurately determining tax amounts and filing returns. According to corporate income tax audit information, up to the first half of 2004 from the 4,399 enterprises that had been audited out of the 35,000 enterprises, a total of Tg 76.9 billion in illegal reporting was discovered and

Tg 10.2 billion in illegal amounts were subjected to disposition by legal authorities. The total additional taxation and taxes in arrears reached Tg 8.2 billion. This is caused principally by the lack of integration and uniformity of tax issues in accounting and its lack of clarity in their relationship and classification in the providing and implementing of the tax laws.

### **7.5 The Necessity of Tax Accountant System**

Article 9.5 of General Taxation Law of Mongolia states that “Enterprise taxation and tax calculation shall be performed by contracted tax accountants”. However, in reality, preparatory work for the introduction of a tax accountancy system has not been completed. Some of the most important issues include the establishment of the legal environment by approving tax accountant law and measures by the government to assure social acceptance of tax accountants. Therefore, let us realistically consider the demand for tax accountant system below.

- (1) By introducing tax accountant system, it will be possible to solve most of the problems related to the CPA system and issues related to preparation of tax returns by taxpayers.
- (2) Once the tax accountant system is introduced and appropriate use of the system are made, the diverse and complex tasks of administration services relating to taxes can be simplified and this would enable achievement of efficiency and improve effectiveness. This would ultimately lead to savings in the budget of GDNT through enhanced efficiencies in the human and physical resource usage.
- (3) If all corporate and personal returns and issues relating to taxation were handled by tax accountants, it would ensure the retention of original documents that evidence the state of business operations and keeping of bookkeeping records. Therefore, this would lead to a reduction in the workload in conducting tax audits and will be effective both in terms of the quantity and quality of audit work.
- (4) Due to the above reasons, by improving the basis of determination of the examinations by tax audit disputes relating to taxes will decrease and the legal rights of the taxpayers will be protected as well as benefiting the tax administration staff by enhancing their capabilities. Through experience, corruption and acts that breach ethical rules and illegal activities will decline.
- (5) It goes without saying that an establishment of tax accountant system and the putting

together a tax law related environment would contribute to the reduction of taxation risks, and to fairness, appropriateness and justness of taxation. The enhancement to social productivity and increased level of national income will lead directly to increase in fiscal revenues and it is without a doubt that this would contribute significantly to the establishment of the country's economic and fiscal foundations.

## **7.6 Issues to be Considered in Establishing 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.

The above-mentioned 5 points shall be explained as the “Draft Proposal for Tax Accountant System in Mongolia”.

## **7.7 Draft Plan for the Mongolian Tax Accountant System**

In establishing the tax accountancy system in Mongolia, the legal drafting should take into consideration the following items. Tax accountant is an independent and specialized profession just as in the case of CPAs and lawyers and must possess certain level of academic credentials and practical professional capabilities based on which the tax accountant provides professional services to his clients. Not every person engaged in economic or legal fields will be able to become tax accountants. For those engaged in economic or legal affairs, in order to acquire a registered qualification, he or she must first go through a specified qualification certification process.

Qualification certification system is an important element of the tax accountant system and is a general term for the series of steps in the selection of tax accountants. Setting up the qualification certification system is needed to assure the quality of tax representatives and protect the legal rights of the client and maintain the profession in the proper level of authority in eyes of the public. This will include the “Examination System” and the “Certification System”.

### **7.7.1 Tax Accountant**

**(1) In order to acquire the qualification of tax accountant, applicants must pass the Qualification Certification Examination of Tax Accountant.**

**(2) Qualification Certification Examination System**

1) Eligibility for the Examination

Mongolian citizens and fulfilling one or more of the following requirements are eligible to take the tax accountant qualification certification examination.

- ① Have graduated from junior college in economics or law related courses or from a university in areas other than law or economics and have engaged in economic or legal related profession for a period of at least 6 years, .
- ② Have graduated from economic or law related university, or have graduated from graduate school majoring in another field but have been engaged in economic or legal related profession for a period of at least 4 years.



- ③ Have graduated from graduate school majoring in economy or law, or have obtained master's degree in different field but have worked in these fields for not less than 2 years.
- ④ Have obtained master's degree in economy or law and have worked in one of these fields for not less than 1 year.
- ⑤ Have obtained Ph. D. in economy or law.
- ⑥ Other persons satisfying other requirements set out by GDNT

## **2) Implementing Organization of the Examination**

GDNT and to be established Tax Accountant Supervision Council will be responsible for formulation of policies, coordinating the organization, qualification examinations, registration and supervision relating to the Tax Accountant Qualification Certification Examination. The examination to grant tax accountant qualification will be unified examination carried out by a single organization on a countrywide level.

Tax Accountant Supervision Council will organize experts in relevant fields to unify the compile text materials and examination questions, plan and unify organization and provide pre-examination training. GDNT will organize experts to set the test subjects and testing philosophy and review the exam questions and formulate plans for implementing tasks relating to examinations and jointly with the Tax Accountant Supervision Council will be responsible for the inspection, supervision and guidance of the examinations.

## **3) Implementation Period for the Examinations**

Qualification Certification Examination for tax accountants will begin in the year 2005 and, in principle, it will be conducted once a year.

## **4) Examination Subjects and the Format**

The examination will consist of 5 subjects: (a) Tax Law (I), (b) Tax Law (II), (c) Tax Representative Application, (d) Laws Relating to Tax Collection, and (e) Accounting. Examination period will consist of segments of half-day in length and each examination will be 2 hours in length and conducted over a 3-day period.

Examination cycle will be 2 years and an applicant who applies to take all subjects will be required to successfully complete all 5 examinations within the 2-year cycle. If an applicant is exempted from any subjects, he or she must successfully complete the examinations in the remaining subjects within 1-year period.

An applicant who graduated from university majoring in a different field than economy or law and has 8 years of relevant work experience is entitled to submit application to take the examinations on all subjects included in the Tax Accountant Qualification Examinations. A

college graduate with at least 10 years of relevant work experience during which the said applicant has been engaged in assistant capacity in tax representation for at least 2 years is entitled to submit application to examinations on all subjects included in the Tax Accountant Qualification Examinations.

A citizen who has fulfilled one of the following conditions is exempted from the requirement to qualify in examinations in (a) Tax law (I), (b) Tax Law (II) and (c) Accounting and will only be required to qualify in Application to Tax Representation and Laws Related to Tax Collection.

- ① An applicant who has been engaged in specialist position for at least 10 years as a state tax inspector in GDNT in accordance with the relevant regulations of GDNT.
- ② An applicant who has been engaged in highly specialized posts at least 10 years in the field of economics, accounting, statistics, audit and law in accordance with the relevant state regulations.

#### **5) Supplementary Training and Education**

Tax accountant Supervision Council is responsible for inspecting the qualification of registered tax accountants. Registered Tax Accountant Supervision Organization of GDNT shall integrate and plan training materials and relevant manuals.

#### **6) Administration of the Examinations and Penalties Imposed for Legal Violations**

To strictly follow the laws and regulations related to the examination, examination questions must be kept confidential during printing, delivering and storage, and strengthen the discipline in the examinations and impose penalties on the applicants who violates any rules relating to the examinations.

#### **7) Review of Tax Accountant Qualification Certificate and Issuance**

The citizen who passed the Tax Accountant Qualification Examinations shall be issued a Tax Accountant Qualification Certificate bearing the seals of the Tax Accountant Supervision Council and GDNT.

### **(3) Review and Certification of Tax Accountants**

The Tax Accountant Supervision Council may certify those who have already acquired the status of contracted tax accountant prior to the examination. The GDNT and the Tax Accountant Supervision Council shall determine the concrete methods and procedures for such accreditation.

## **7.7.2 Registered Tax Accountant**

### **(1)Registration of Tax Accountants**

#### **1) Registration Administration Agency**

Registered Tax Accountant Supervision Organization within the GDNT is responsible for the registration and administration and shall have responsibilities for inspection and supervision of the registration status of tax accountants.

#### **2) Registration Period and Content**

A tax accountant who has acquired the Tax Accountant Qualification Certificate shall complete the procedures to be or not to be engaged in the taxation field to the Tax Accountant Supervision Organization within 3 months of acquiring the certificate. If some circumstances exist, such period may be extended with the approval of the Tax Accountant Supervision Organization for up to 6 months.

Those who have failed to take registration steps within the prescribed period are deemed to relinquish his or her right to register. The content of the registration shall consist of name, birth date, and identification number.

#### **3) Registration of not working**

The citizen who desires not to be engaged in tax accountancy submits the request to the Tax Accountant Supervision Organization together with Tax Accountant Qualification Certificate.

The Registered Tax Accountant Supervision Organization shall complete the review within 30 days since receiving above-mentioned materials from the applicant who requested not to be engaged as tax accountant. In case the citizens conform to the conditions, he or she shall be issued a Certificate of Non-Engagement in Tax Accountancy.

#### **4) Tax Accountant Registration**

The applicant for registration to be engaged in tax accountancy shall fulfill the following conditions.

- ①Strictly follow rules, procedures, regulations and professional ethics
- ②To be in possession of Registered Tax Accountant Qualification Certificate or shall have been issued Certificate of Registration as Practicing Tax Accountant.
- ③Be under 70, healthy and able to work as a registered tax accountant

The citizens who are re-registering shall be reviewed by the Tax Accountant Supervision Organization and qualified. The applicant must have a certificate that he or she has completed continuing education and professional training.

Also the applicant who requests Certificate of Registration as Practicing Tax Accountant shall submit the following documents to the Registered Tax Accountant Supervision Organization

① Application for Registration for Practicing Tax Accountant

② Tax Accountant Qualification Certificate or Registration of Non-Practicing Tax Accountant

Registered tax accountant with permit shall be registered by the Registered Tax Accountant Supervision Organization according to the guidelines of the GDNT.

Upon receipt of the above-mentioned documents and its review, Tax Accountant Supervision Organization shall issue Registered Tax Accountant Qualification Certificate or a Certificate of Registered Practicing Tax Accountant within 30 days.

Those who possess the Registered Tax Accountant Qualification Certificate shall have the right to sign and affix seal impression on documents prepared as a tax representative as a registered tax accountant and shall assume corresponding legal responsibilities.

#### 5) Non-Registration

Registration for Practicing Tax Accountant shall not be issued if the applicant meets one or more of the following conditions:

① Citizen who has illegally acquired "Tax Accountant Qualification Certificate"

② Persons deemed legally incompetent

③ Persons who have been convicted of a crime and 3 years have not elapsed since the time of his or her completion of sentence

④ Persons who have been ousted from public office and 3 years have not elapsed since the time of expulsion

⑤ In the course of performing work of tax representative, conducted illegal activities and less than 2 years passed since the date of disposition

⑥ Others as deemed by GDNT to not possess the qualification to be issued a Registration for Practicing Tax Accountant

In case the inspection reveals that registration conditions were not fulfilled. The Registered Tax Accountant Supervision Organization shall so inform the applicant within 30 days.

#### 6) Deletion of Registration

For persons who have acquired the Registered Tax Accountant Qualification Certificate and if one or more of the following conditions are met, the Tax Accountant Supervision

Organization shall conduct factual confirmation and upon approval of GDNT, shall expunge the Registration for Practicing Tax Accountant.

- ① Person filing false application for Registration for Practicing Tax Accountant and illegally obtaining Registered Tax Accountant Qualification Certificate
- ② Persons who died or are missing
- ③ Persons who have performed illegal acts in the course of acting as tax representative
- ④ Persons who failed to qualify in the annual inspection or those who have refused to take annual examinations within the stipulated period
- ⑤ Others GDNT considers unfit to be engaged as a tax representative

#### 7) Registration Administration

An organization that supervises registered tax accountants provides statistic information on the Registration for Practicing Tax Accountant and its absence and provides reports to the GDNT on a regular basis.

GDNT is in charge of declaring to the public the consolidated information on Tax Accountant Qualification Certificates and the Registrations for Practicing Tax Accountant.

Registered tax accountants' registration is valid for 3 years and the person must renew the registration in accordance with guidelines within 3 months before the end of the validity period with the Tax Accountant Supervision Organization. GDNT once in a year examines Qualified Tax Accountant Registration Certificate and issue a certification. Review of the certificates is uniformly organized by GDNT and the certificates are examined by the Tax Accountant Supervision Organization. Tax Accountant Supervision Organization may collect fees during the registration and annual examination of certificates.

#### **(2) Rights and Responsibilities of Registered Tax Accountants**

Tax accountant in performance of duties as a tax representative, with the precondition that the appointment is based upon the will of the taxpayer, shall comply with tax laws and administrative rules and regulations, and perform duties in an independent and fair manner and protect the good of the state and the legal rights of the taxpayers whom he or she represents. In other words, a registered tax accountant must comply with the relevant laws and rules of the state and maintain the principles of independence, objectivity and fairness.

##### 1) Rights of a Registered Tax Accountant

Registered tax accountant enjoys the following rights:

- ① Based on request of taxpayer a registered tax accountant may act as overall representative,

representative for specified items or may act as an annual representative or temporary representative.

Overall representative means that taxpayer's taxation affairs are entrusted to the tax accountant. Specific representation means representation on a specified item on a one-time basis. Annual representation means that an annual agreement is concluded with the taxpayer to represent the taxpayer regarding multiple items of tax operations and provide representation service in the taxation period. Temporary representative acts as a representative to deal with a temporary issue.

② If a registered tax accountant performs duties in accordance with the law, he or she shall enjoy the legal protection of the state and shall not be subject to illegal interference from agencies, organizations, divisions or individuals.

Registered tax accountant's taxation representation activity is independent and has an intermediary character.

In the event an organ or organization interferes illegally, the decision rendered by the tax representative would lose its authority and result in a loss of confidence of the client taxpayer and will be detrimental to the development of the tax representation profession.

③ While performing representation assignment, a registered tax accountant has a right to request written financial documents, audit the office or the building and require other help, if needed. The precondition for the tax accountant to accurately perform the tax operations on a timely manner is an understanding of the actual state of the management and state of operations. Therefore, the tax accountant has the right to require the provision of required bookkeeping records, promissory notes, contracts, meeting protocols and other documents that are related to payment of taxes. The registered tax accountant has a right to examine accounting documents, conduct physical audit of an office and building of the client where the business is conducted and seek other assistance as required. The client shall provide the materials and access and concealment or refusal shall not be allowed. If such conditions are not met, a registered tax accountant retains the right to refuse the provision of further service. If the supporting documents of the taxpayer are fraudulent or insufficient, the tax payment sheet and tax payment certificate to be issued by a tax accountant should be considered invalid and the applicant should bear the responsibility.

④ Tax accountant may refuse requests made by the client that are in breach of tax laws or regulations.

⑤ If a registered tax accountant disagree with administrative disciplinary actions, in accordance with the law, the tax accountant may request review of bring the matter into the courts.

When renewing registration, considering maintenance and enhancement of the capabilities as tax accountant, mandating training and examinations upon completion of training should be examined.

## 2) Duties of a Registered Tax Accountant

### ① Basic Requirements

A registered tax accountant shall observe the highest standard of ethics in respect of assigned job and maintain the professional image and confidence. .

Professional moral means public pledges or rules formed by professional organization and published and are voluntarily accepted by the members. Professional morals of tax accountants is a general term referring to the professional character and moral standards, professional discipline, specialist skills and professional responsibility of a registered tax accountant.

### ② Requirement of Specialist Skills

To provide high quality service, a registered tax accountant shall dedicate him/herself to assigned work and possess high level of professional skills. Requirement for professional skills is one of the essential elements of professional morals of a registered tax accountant.

- a. The registered tax accountant shall be fully knowledgeable on state fiscal policies and rules and execute duties based on an accurate understanding of the scope of assignment.
- b. Tax accountant shall undertake continuous education as a specialist and always keeping up-to-date and grasp the most recent tax collection policies and enhance capacity to execute function. Receiving specialist development training and review organized by the Tax Accountant Supervision Organization is one of the requirements for re-registration. .

By the time of qualifying in the Tax Accountant Qualification Examination and the approval has been granted, the applicant will have already reached specialist level and have had a wealth of specialist experience and will have become a highly specialized set of skills. The registered tax accountant should not be satisfied with acquired knowledge and experience, but shall always strive for further development and shall not be satisfied

with dealing with new issues based purely on empirical or doctrinaire manner. At present in the information technology, economy is rapidly opening opportunities to enrich the scope of knowledge and as new issues, new approaches, and systems coming one after the other, the scope of work of a registered tax accountant will definitely expand. Therefore, a registered tax accountant needs to meet the changing needs and attend trainings regularly to improve and develop knowledge and professional skills and study ways to better execute duties within existing laws and regulations, always looking for innovative ideas and ways to improve professional skills.

- c. A registered tax accountant shall instruct and supervise the employees and shall be accountable for the final results. Although a registered tax accountant operates in collaboration with other employees, as a representative of tax activities is ultimately accountable for the final product including the work of employees. A registered tax accountant shall take due care in utilizing employees and provide instruction and supervision to employees.

### ③ Accountability/Responsibility Towards the Client

- a. In event that in accepting a representation of a taxpayer, a conflict of interest exists which would affect the ability to fairly conduct the tax representation tasks, a registered tax accountant shall voluntarily report and explain such situation to a tax administration with jurisdiction in the district in which the his or her office is located. The registered tax accountant is a specialist entity or individual that maintains its independence and not be subject to any tax administrative agency, or divisions or individuals. If a conflict of interest exists between the registered tax accountant and the client, he or she will lose his independence and will impact upon his or her ability to objectively perform duties required and may impact on ability to fairly implement duties. In such a case, the registered tax accountant shall avoid such appointment.
- b. A registered tax accountant, when taking on tax representation, shall observe the principle of voluntary assignment and shall not force the taxpayer for the appointment as tax representative.
- c. When a tax accountant takes on an appointment, he or she shall show registration certificate issued by the relevant tax authority and Tax Accountant Supervision Organization tax accountants. A registered tax accountant is eligible to sign and seal all documentations related to representation work and bears corresponding legal responsibilities.



- d. A registered tax accountant shall comply with scope and duties of the representation activities indicated in the appointment agreement, provide specialist services accurately in a timely manner and protect the client's legal rights and maintain confidentiality.

From the perspective of functions, tax representation is a service activity. Registered tax accountant is required to faithfully and strictly protect the legal interest of the client within the scope of his assignment. Depending upon the circumstances of the client, based on the relevant provisions of law, utilizing specialist knowledge, respond to questions from the client and perform various tasks on behalf of client. Thereby, a client will be able to avoid deficiency in payment of taxes caused by his lack or incorrect understanding of laws and regulations relating to tax collection. It will also avoid the taxpayer from concerning with overpayment of taxes or not being able to take advantage of preferential tax treatments. More importantly, based on the principle of legality and reasonableness, a registered tax accountant will provide tax saving advice and thereby enabling the client to avoid payment of unnecessary taxes. In a case of a mistaken collection of taxes due to objective causes, the registered tax accountant can identify such to the tax authorities in a timely manner to correct the mistake and minimize loss for the taxpayer

The registered tax accountant in order to properly perform his duties will need to inspect the financial documents and accounting records of the client and gain understanding of the management conditions of the client business. In the course of these activities, the tax consultant will be exposed to business and other confidential information and the tax accountant is bound by obligation for confidentiality and may not freely divulge information relating to the client to the public. If such information is divulged, it may result in economic and other types of losses being suffered by the client and the tax consultant shall be held accountable in such a case.

It goes without saying that in a process of monitoring by Tax Administration or resolution of disputes through court, a registered tax accountant shall not use confidentiality as a justification for refusal to provide testimony. However, the tax accountant should request the tax administration or the court to have the review or the hearings non-public to protect the business interest and other rights of the client.

#### ④ Rights and Responsibilities Toward Tax Office

A registered tax accountant bears two main responsibilities arising from the nature of the profession. Firstly, it is the interest of the client. Registered tax account due to the principle

of neutrality must behave in a similar manner as a mediator. In reality, the tax accountant is faithful to the client but what is more important is that he ought to represent the interest of the state. In other words, with the preconditions that the actions are not contrary to state interests, he or she needs to protect the interest of the client.

- a. A registered tax accountant in the performance of his duties, must receive supervision, inspection and business guidance from the taxing authorities.
- b. A registered tax accountant shall restrain any attempt by the client to evade taxes and must report such in a timely manner to the relevant tax administration.

A registered tax accountant should carry out business grounded in laws and regulations and perform his duties within the scope provided by the laws and regulations. Certification on tax payment, schedule of payment issued by a registered tax accountant is required to conform to tax collection principles provided for by the central and local governments and calculated in accordance with certain estimation methodology. Activities of a registered tax accountant shall include monitoring of tax collection, duties arising of tax representative functions and conducted in line with legal regulations. In other words, a registered tax accountant through the performance of service shall respect above all the state law and ensure the certain implementation of laws and regulations relating to tax collection.

#### ⑤ Other Duties and Responsibilities

- a. When a taxpayer requests items of representation, a registered tax accountant shall enter into a representation agreement with the client.
- b. The registered tax accountant shall perform the requested tasks and create a registry, task drafts, task files and record factually for retention and the registered tax accountant shall be accountable for all tax documents signed and stamped by the registered tax accountant.

### 3) Legal Responsibility of a Registered Tax Accountant

If a registered tax accountant makes mistakes in activity or takes illegal actions, the taxpayer will face unrecoverable losses, in addition, it will have adverse impact on the State budget income, and will have negative impact on country's economy. Therefore, it becomes especially important that awareness by the tax accountant for responsibility.

Tax representation is a contracted representation service and is governed by provisions and regulations contained in civil law and contract law relating to representation and the tax accountant or the tax representative is held legally responsible for the representation relationship. Registered tax accountant acts on behalf of the taxpayer in undertaking tax related affairs, he also partially bears the legal responsibilities of the taxpayer.

## **A Structure of Tax Accountant Law in Japan**

<b>Chapter 1. General justification</b>	
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<b>Chapter 2. Exams for tax accountant</b>	
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Application for registration	Paragraph 21
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Chapter 5. Part 2. Professional council	Paragraph 48.2
Formation of the professional council	Paragraph 49.2
Regulations of the professional council	Paragraph 49.16
Council to award the degree	

## **8. Monitoring and Support of the Progress of Proposals Made by JICA Tax Collection Enhancement Studies**

### **8.1 Tax Payer Registration, Tracking of Unlocated Person and Transfer of Paper Information**

Followings are the results of survey based on the interview with the person in charge at GDNT Tax Collection Division, GDNT Audit Division, UB City Tax Office, each district tax office of Sukhbaatar, Bayangol, Khan-uul.

#### **(1) Succession and Acceptance of Tax Payers' File Associated with Move of tax Payers**

The succession of tax payers' file (including paper information) when a tax payer moves between jurisdictions of tax offices, at the tax offices in UB City, should be made to inspectors in charge of tax collection. They prepare the document for succession and deliver them by themselves to avoid any mistake. We did not recognize any problem there. In case of a taxpayer moving out to Local area, the relevant documents are sent by mail.

#### **(2) Clarification of Unlocated Tax Payers**

Although it is not often that taxpayers become unlocated in local area, we heard that such cases occasionally seen in UB City.

For example, although it is required for a corporation to register at the competent tax office after registering at GDNT's National Registration Office and obtaining registration certificate of such registration, there are some corporations that do not follow the procedures, resulting in mismatch in registration between National Registration Office and tax offices. According to "Taxpayers Registration Rules", it is required that status of registration to the database to be cross-checked once a week, and if any mismatch found, the tax collection staff in charge at the tax office should clarify the location of such tax payer. For such clarification, they will actually visit such residence or offices to confirm the location, and recommend the registration to the tax office.

According to "Tax Collection Rules", the tax collection staff working at site, have obligation to check the registered address and whether their business operation is conforming to their filing. They also have obligation to give some knowledge about general tax laws to tax payers.

When no return was filed despite of their obligation to file return, the actual location must be checked first. As a result, if unlocated status is confirmed, refer to the record of Citizen's Registration Office to check the address after moving, or refer to National Registration Office or custom to check the address. If still not identified, make an inquiry to the neighbors. Ask police office for help if necessary. Currently, each tax office asks police station to track such

location twice a year by providing the third party information.

If a taxpayer went abroad or moved to other province without taking proper procedures, it is difficult to track the record. In such cases, it is almost impossible to identify their locations.

Although going on patrol in jurisdiction to identify unregistered person is one way which may work well in case of retail shop or restaurants where one can check from outside, it may be difficult to identify when privacy might be an issue, for example in case of a company manufacturing adornment or otherwise in one room of an apartment.

Overall, however, unidentified cases are not so many. There are only about 200 cases in five years nationwide (approximately 1 or 2 cases per year per office on average).

Most unidentified cases are corporations and only a few cases are individuals. Individual are more likely just living there without having filed tax return. In such case, tax will be collected only when the tax collection staff visits such person.

### **(3) Countermeasures for the Delinquent Corporations**

Since October 2003, corporations have been checked and taken its statistics according to the new law regarding registration of corporations. Sanction committee for delinquents has been set up at GDNT. The Committee extracts delinquents from the statistical data of corporations, and asks Customs or National Registration Office to confirm their addresses. For the confirmed corporations, the notice of duty tax payment will be sent. If the corporation is found unlocated, its address shall be tracked by asking police for cooperation as described above. For the corporations whose addresses were not be found, including the case that substance of the entity was lost due to death of the responsible person, the registration of such corporation shall be deleted with cooperation of National Registration Office and a court.

## **8.2 Statutory Receipt System**

We conducted the survey about current status of implementation of statutory receipt system directly from GDNT Director-General. He mentioned, "Minister of Finance and Economy has already made aviso for the statutory receipt system. The only problem is the budget for printing such receipt, which requires substantial printing. We would like to proceed printing this year by making it agenda of Budget Committee. We want to carry out that this year."

Then, we had a hearing from Tax Administration and Methodology Division about the current status. For the statutory receipt system, government proposal, which is based on the proposal prepared by GDNT, was submitted to the Congress. However, many problems were pointed out including budgets at the discussion in the Committee, and were not submitted to the main conference. Thus, it has not been enacted as a law. Thus, the system is now sought to be implemented through aviso from the Minister. Although GDNT will be working with relevant

authorities to have the proposal enacted, it is understood that there are still many difficult problems, which would hinder it from obtaining consent of the Congress. For example, many members of Congress are against that enactment, and it is expected that taxpayers would object against charged delivery of legal receipt.

When looking at the system from the original standpoint, this statutory receipt system was proposed based on the situation of Mongolia from 1998 to 2000. At that time, majority of taxpayers did not make and keep any books of original entry, such as transaction books, invoices and receipts. Thus, identifying their taxable income was quite difficult. In such circumstances, it was considered effective to make taxpayers prepare some effective material which would help to identify their taxable income even against their will. The introduction of statutory receipt system was proposed against such background.

However, in order to truly establish self-assessment taxation system, it is necessary to promote measures for the taxpayers themselves to make appropriate tax return based on accounting books on their business. Consequently, in current circumstances where knowledge about tax and bookkeeping has been gradually prevailing among taxpayers, it seems more appropriate to promote practice of bookkeeping and establishment of self-assessment taxation system as an ideal model for taxpayers.

### **8.3 Preferred Return System for Good Tax Payers**

We had a hearing from Tax Administration and Methodology Division about current status.

GDNT has good understanding about preferred return system for good taxpayers through the research of the blue return system in Japan. GDNT explained to us that they would compare and analyze such systems of other countries as well to introduce most appropriate system for Mongolia.

As implemented preferred treatment for good taxpayers of 2003, they screened best ten companies at the chamber of commerce and industry, and granted them Tg 1 million each as an award of the Minister of Finance and Economy.

### **8.4 Real Estate Tax**

At the previous phase, "Land Law" (January 2003) and "Land Privatization Law" (May 2003) were enacted regarding to land among real estate. Some suggestions were also made about real estate tax for privatized land that would be an issue in case that land privatization is proceeded.

For example, assuming the tax such as fixed asset tax in Japan, we showed the examples of evaluation method in Japan, as an example of how to evaluate the land as a base of taxation.

We gave a hearing to Tax Administration and Methodology Division and Land Management Department of UB City about current situation of land privatization and enforcement of

real-estate tax for the privatized land.

It was decided that land would be privatized by assigning 0.07 hectare per household of Mongolia without charge, and rest of the land be transferred with compensation. As a procedure, Mongolian citizens shall make an application based on priority regarding their residence. Land Management Department shall examine such application. When the application is approved, the information regarding the land ownership shall be provided to State Registration Department of Immovable Property and relevant tax offices. According to the research, there are approximately 69,000 pieces of land to be allocated and 20,000 pieces had been privatized as of the end of 2003. Recently, it seems there was press reporting that land auction was conducted and there were some bidding for it.

After enactment of the Land Law and the Land Privatization Law described above, the proposal for amendment of Real Estate Tax Law to impose real estate tax on the land was discussed at the Congress on January 10, 2004, where the amendment was approved and enacted. At the same time, "Ordinance concerning the 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 Tg 44,000 per 1 square meter (although it is not clear how this value is calculated, the person in charge explained to us it was likely that Russian method of twelve to thirteen years ago was used). The final value was determined by region, based on the above value, and with the ratio taking account of the difference of each region.

Currently, how to assess land value is a difficult issue in Mongolia due to lack of previous cases of purchase and sale transaction of lands and lack of clear established evaluation method for land. It seems political judgment is involved in such evaluation for the time being, considering balance of burden of tax.

However, when computed simply with the calculation formula above, it seems the tax burden becomes fairly heavy compared with the rent for land. Considering that point, in actual taxation, enough exemption measures are taken so that the tax will not exceed the rent of land. For example, exemption ratio is 95% in UB City, 97% in aimag and 98% in soum. Besides, personal residence is fully exempted from land tax for 5 years.

At all events, imposition of real-estate tax on land has just started. What kind of problems will occur and what amendment will be needed are all depending on the future development.