
APPENDIX

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Needs for Tax Accountants

One. Current status of Tax accounting and requirements for further enhancement

At the launch of historical events to switch to market economy with state regulation, the Government gave a prior importance to developing sophisticated accounting system that was called the “language of business”. One of the objectives of that time was introduction of International Accounting Standards in its classical form replacing former accounting system served for socialist or public property that was a foundation of previous social and economic system in order to ensure consistency of the system with new relations arising from results of the privatization. This objective was achieved by adoption of new Accounting law followed by its constant updates made over the last 10 years. According to results of last two inspections on Accounting practices, efficiency and effectiveness of the law have been proved as enhanced considerably. During the 3rd meeting of Promising staff of Accounting sector, this issue was also promoted as a goal of prior importance. The National tax administration has made a significant contribution to successfully introducing Accounting system nationwide and will also keep it at the center of attention in the future.

Transparency, fairness and accuracy of process of evaluating, classifying, consolidating and measuring results of multiple transactions are ensured by effects of rational mechanism of accounting. If we look at this process from the point of taxes, it is necessary to accurately determine tax effects of accounting period or future tax computation, make them compatible with GAAP and requirements of IAS, and record them in accounting records while complying with the tax laws. Introduction of tax accounting should be considered in conjunction with preparation of skilled and experienced experts of tax matters who are capable of performing duties in an ethical manner that reflects credit upon themselves and their profession.

It worth considering that tax accounting itself has a special impact on making accurate calculation in respect of spending scarce resources efficiently and also protects taxpayers from suffering considerable losses due to additional assessment, penalties and fine etc. On the other side, tax accounting is designed to supply complete and reliable information about company’s financial position to outside users of financial statements such as Government authorities, banks, financial institutions, shareholders and investors and to help them in making necessary decision. Urgency for introducing and modifying tax accounting that entails

such features can be explained by undecreased level of tax infringements, intentional or unintentional errors, and risks faced by taxpayers due to incompleteness or misapplication of accounting that are usually revealed in the course of tax collection and tax audit implemented by the tax administration. For example, as of 2003, a level of submission of tax return was as follow: 1123 taxpayers failed to submit their tax return, while 3423 taxpayers filed "Minus" return (declaring losses) and 4795 taxpayers submitted "X" return (declaring no business operation conducted). In the same year, 45821 individual taxpayers out of 55000 submitted tax return (so-called "income and tax determination form"). Despite of increase in submission of tax return of main taxes such as Corporate income tax, Value added tax and Excise tax, it still remains unachieved to 100 percent. Moreover, submission of returns for presumptive taxes, various payments and fees is considerably low. According to taxpayer census of 2003, 23501 taxpayers were subject to presumptive taxes whereas 5404 were subject to Estimated assessment. Such statistics emphasize for needs to take multiple measures in a field of tax collection, administrative arrangement, but also for necessity of cooperation with every single taxpayer. Due to mistakes or infringements such as omission or erroneous declaration of taxes in accounting statements, 7189 taxpayers were penalized in 2001 under the tax laws to smaller or greater extent, while they were 8539 in 2002, 9536 in 2003.

In parallel with improvement of an environment for private sector development, sophistication of business approaches and increase of interest to run business as a corporation, the number of corporations is increasing from year to year. Whereas the number of corporations registered with the State Registration office was around 22,000 nationwide in 2001, today it reached to approximately 35,000, coupled with enlargement or expansion of types of businesses. However, there are still no persistent advancements in recording and declaring taxes for accounting purposes. Looking at audits statistics carried out to the first half of 2004, totally 4399 taxpayers were audited, where 76.9 billion tugrugs were detected as violation, cases affecting 10.2 billion tugrugs and 782.4 thousand USD were transferred to jurisdictional bodies and risks affecting additional taxes, interest and penalties reached to 8.2 billion tugrugs. This is resulted from a fact that provisions of the existing tax laws fail to resolve issues in respect of recording taxes in accounting on a uniform basis, and to make interrelations or distinguishing features thereof simple and understandable.

Today there is an enormous need of distinct procedures for recording corporate income taxes for accounting purposes, careful investigation for transactions causing tax consequences and exact provision for ways of reflecting them in double entries or financial statements and uniform compliance thereof that should be implemented in accordance with IAS and tax laws. For instance, due to poor coordination of goals of financial accounting and provisions of the

tax laws, there arise permanent and temporary differences that should be adjusted accordingly. Thus, it is vital to modify tax accounting in order to ensure its consistency with IAS.

Two. Introduction of Certified Public Tax Accountant System

Prospects of introducing and modifying tax accounting are inseparably linked with knowledge, skill, qualification and experience of a person who handles with financial and accounting tasks of the corporation. At present, accounting practice at most of the corporations is still not well-developed, coupled with lack of professionals who are capable of recording taxes for accounting purposes. Hereby, a variety of factors influence. Some of them are mentioned below.

- In the course of transition to market economy, taxes emerged as new aspects and administration thereof over the last decade has become one of the biggest challenges facing Mongolia.
- Consequently, it is critical for Mongolia to concern about formulation of tax policy, development of implementation mechanism and constant update thereof.
- For said purposes, the Government is paying a greater attention to training and retraining of tax staff and implementing multi-facet measures designed to improve their qualification.
- In turn, it should positively affect on managers and financial or accounting specialists of the corporations and enhancing their work coordination.
- Ultimately, those requirements indicate for further demand of specialized consultants or accountants qualified in tax matters and lead to a comment that it has already become required to take appropriate measures in this field.

Despite of Article 9.5 of the General Tax Law that provides “calculation of imposition and payment of tax of legal entities shall be conducted by commissioned tax accountants”, issues pertaining to preparation of commissioned tax accountants and services to be provided by them have not well-arranged yet. In connection with this, studying practical experiences of developed countries including Japan, Korea and South East Asian countries that have already implemented or are currently implementing CPTA system and introducing such system adjusting to own special circumstances has become a critical issue that is to be implemented in a short-term run.

If we successfully implement this system, there will arise an enormous potential to make state services in respect of taxes adequate for general public, enhance utilization of human, capital and financial resources, and minimize compliance cost of the tax administration.

Introducing this system adjusting to needs of corporations will facilitate protection of legitimate rights of taxpayers and prevention from possible tax risks.

The CPTA system is also designed to put out significant informal (shadow) economy that contradicts to fairness and transparency of taxes and to enhance efficiency of social production. With an increase of the number of taxpayers, tax administration becomes overloaded by works of administering taxpayers, specially, the number or quota of taxpayers handled by tax staff in the collection sector has significantly increased making them impossible to communicate with each taxpayer. In this case, a time devoted to checking tax return, demanding tax imposition and payment can be saved by exempting reliable taxpayers who utilize CPTAs from strong supervision, and instead, those who evade taxes can be controlled effectively. As economy grows in the future, the number of tax collection staff is likely be reduced and the tax administration may give more importance in tax auditing and thus, activities of tax administration could be enhanced in terms of quality of its service.

Utilization of tax accountants in preparing tax return and tackling other problems with respect to tax compliance will facilitate enhancement of compilation of business documents, advancements in primary bookkeeping and accounting practices or their introduction, thereby minimizing the labor consumption necessary for performing tax audits and increasing their effectiveness and efficiency. Moreover, because of improvement in grounds of audit disposition and decision, the number of disputes regarding taxes will significantly reduce and the taxpayers will become capable of protecting their legitimate rights. To the extent of improvements in level of tax education of taxpayers and ability to prove disputed issues in a process of remedies for infringement of their rights, the level of knowledge, qualification, skill and experience of tax staff will be enhanced considerably while ensuring prevention from corruption or other ethical misconducts.

If legal environment for preparing CPTAs and establishment of examination and approval system are created successfully, they could be used for purpose of increasing public awareness or social mentality of paying taxes that in turn, would create favorable environment under which taxpayers run their business and determine their orientation. They could also be utilized in restricting informal sector or underground economy and enabling the taxpayers to carry out business with less risks in accordance with law, and to such extent, reliable and efficient base or resources of revenue would be generated. There are justifiable grounds to say that such factors will result in reduction of compliance or collection cost of the tax administration and budget savings can be utilized for other necessary purposes.

Three. Issues to be considered by the GDNT in introducing CPTA system

Considering the positive consequences on operation of the National tax administration expected from the introduction of CPTA system, the following measures should be implemented as required:

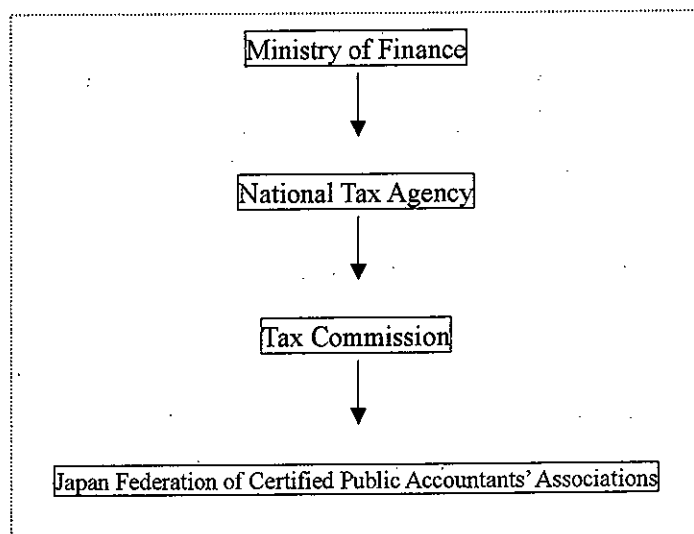
1. The CPTA system should be utilized for systematically enhancing qualification and skill of tax staff employed by all tax offices throughout the country and ensuring stability of their employment. It is necessary to create legal environment for allowing tax staff who have effectively worked for the tax administration for years without committing any ethical misconducts to work as tax accountants or consultants after their retirement or in case where they became disabled while were on duty etc.
2. In order to make tax accountant system widely common, it is necessary to establish an enabling legal environment for preparing or re-preparing CPTAs and a system that promotes undertaking tax accountant or consultant services, and to provide them with professional expertise.
3. The tax administration should be fully authorized to exercise government services in respect of approval, extension, suspension or termination of CPTA right.
4. Cooperation with Government or public organizations should be established with respect to determining coordination or boundaries of tasks by CPTAs.
5. It is necessary to establish cooperation with Government or public organization promoting tax accounting and CPTA system or implementing studies or researches on tax accounting and to create legal environment for promoting their activities.
6. It is desirable to create an enabling environment for and publicize importance of utilizing CPTAs and tax consultants or in complying with tax laws, performing lawful obligations in a reputable manner and getting remedies for infringement of taxpayers' rights.
7. Experiences of developed countries that successfully introduced CPTA system or tax consultants should be investigated thoroughly and made them public. As the same time, possible ways of adopting such experiences in Mongolia should be studies and developed.
8. It is essential to develop issues in respect of establishing legal environment for tax accounting and CPTA system and submit them to the Ministry of Finance, Cabinet and Parliament for their approval.

The National tax administration is possible to implement those measures shortly.

Thank you for your attention

Japanese Tax Accountant System

1. System Structure



2. National Tax Agency

Within the National Tax Agency organization, there are Director of the Secretariat, Tax Accountant Section of the General Affairs Division, and Examination Section of the Personnel Division, which are responsible for administrative matters. With respect to the Certified Public Tax Accountant System, the Tax Commission is appointed to be the decision-making organ.

3. Tax Commission

In January 2001, councils including the National Tax Council and Certified Public Tax Accountant Council were integrated and established within the National Tax Agency as the Tax Commission. The commission is divided into subcommittees and administers the certified public tax accountancy examinations and disciplinary actions on tax accountants under the provision of the Certified Public Tax Accountant Law.

Term of office of a member is two years and may be reappointed. Member's status is a part-time civil servant and is subject to provisions on confidentiality and obligation for exclusive dedication to duties under the National Public Service Law.

(i) Certified Public Tax Account Examination

Certified Public Tax Accountant Examination sub-commission-group is responsible for the preparation of the questions for the certified public tax accountant examination, grade the completed examinations, and certify qualification for some subject areas through essays. The examination committee members are appointed by the Minister of Finance based upon recommendation from the members of the

sub-commission. The examination committee member is relieved of his or her duties upon completion of the tasks. His or her status, like the member of the Tax Commission, is a part time national civil servant.

(ii) **Disciplinary Action**

A disciplinary review committee is established within the sub-commission. The member of the disciplinary review committee is appointed by the Minister of Finance based upon recommendations from sub-commission members. The disciplinary review committee members are dismissed after completion of tasks and his or her status is same as in (i) above.

4. Japan Federation of Certified Public Tax Accountants' Associations

(1) **Establishment and the Objectives**

The Japan Federation of Certified Public Tax Accountants' Association is an organization based on the Certified Public Tax Accountant Law and the membership comprises of Certified Public Accountants Associations nationwide. At the time of establishment, the rules of the association must be established and application for approval must be submitted to the Minister of Finance through the Commissioner of the National Tax Agency.

The Japan Federation of Certified Public Tax Accountants' Associations, in order to contribute to certified public tax accountant's obligation for confidentiality and to the improvement and progress in the task performance by the certified public tax accountants, provides guidance to the certified public tax accountants associations in each region and performs operational tasks relating to communication and supervision as well as undertaking administrative operations regarding registration of certified public tax accountants. The federation has 15 member associations nationwide.

The registration of certified public tax accountants has been transferred from the National Tax Agency as a result of amendments made about 50 years ago whose intent was to respect the autonomy of the certified public tax accountant associations. Therefore, the federation performs the necessary operations of putting together a registry of certified public tax accountants, acceptance of new registrations, examination of registration related matters, registration, operations relating to registration review and qualification review, issuance and recovery of certified public tax accountant certificates, changes in registration, cancellation and extinguishment of registration and other similar tasks.

(2) **Operation Details**

The Japan Federation of Certified Public Tax Accountants' Association undertakes the following operations to achieve such objectives.

- (i) Provide recommendation or instruction to the Certified Public Tax Associations and their members on necessary items relating to guidance, communication, and supervision of the certified public tax accountant associations and their members
- (ii) Undertake studies and research relating to tax administration, other taxes or certified public tax accountancy systems
- (iii) Undertake studies and research relating to improvement and progress of the profession of the

members of the certified public tax accountant association

- (iv) Undertake public relation activities regarding the certified public tax accountant system and the profession of certified public tax accountant
- (v) Issue member newsletters
- (vi) Undertake operations relating to registration of certified public tax accountants
- (vii) Take necessary measures relating to training of members of the certified public tax accountants associations
- (viii) Take necessary measures relating to the tasks performed by the certified public tax accountant for small taxpayers
- (ix) Take necessary measures relating to compensation for tasks performed by members of the certified public tax accountant and preparation of books
- (x) Submit proposals to jurisdictional government bodies or respond to inquiries from the same with respect to systems relating to tax administration, other taxes or certified public tax accountancy systems.

(3) **Social Contribution**

To contribute to the development of the self-assessment taxation system, the following measures are being performed.

- (i) Tax counseling for small businesses
- (ii) Submission of proposals and requests relating to tax system and tax administration
- (iii) Responding to external audit system for local governmental bodies
- (iv) Guidance on white (simplified) booking (income and expenditure booking when accounting books are not being kept)
- (v) Volunteer activities
- (vi) "Essays on Taxation" by Junior high school

(4) **Regular Publications**

- (i) Bulletins published each 15th of the month (mainly for members of the certified public tax accountant associations)
- (ii) Tax Handbook (editing)
- (iii) Tax Law Compendium (edit) Codes relating to taxation

5. Certified Public Tax Accountants Association

(1) **Establishment and Objectives**

Certified public tax accountants association is an organization established as an autonomous organization by the certified public tax accountants operated with the objectives of contributing to fulfillment of the mission of the certified public tax accountants, honor their obligations, and improving the profession of

certified public tax accountants. The association also provides services relating to guidance, communications and supervision of certified public tax accountants. The Certified Public Tax Accountant Law, in principle, is premised on one certified public tax accountant association established in each of the jurisdictional district of the National Tax Bureaus.

Certified public tax accountant associations are divided by regions and some of the operations of the Japan Federation of Certified Public Tax Accountants' Associations are contracted to the associations. For example, the actual administrative operation for the registration of certified public tax accountant are performed by the associations and those who have qualified through the examination need not to travel to Tokyo for registration. In many cases, the associations play the leading role in providing training.

6. History of the Certified Public Tax Accountant System

1942: Birth of the certified public tax accountant system

Up until this point, the area of taxes was performed by retired tax officials, lawyers, accountants (later to become certified public accountants) and others who were not qualified with credentials but had some semblance to accounting. A wartime law to establish tax representative system was established and an official qualification system for those practicing tax representation for taxpayers as a profession was born.

1947: Income Tax, Corporate Income Tax, Inheritance Tax introduced into the self-assessed taxation system

1950: Tax reform.

1951: Enactment of the Certified Public Tax Accountant Law

In place of the Tax Representation Law, a new Certified Public Tax Accountant Law was passed. An examination system was applied in principle. Under the law, lawyers, certified public accountants, those who passed the certified public tax accountant examinations and those who were exempted from the certified public tax accountant examinations were granted qualification. Among those who were exempted included tax office staff with certain years of experience. Regulations limiting the maximum compensation for certified public tax accountancy engagement was established.

1956: Membership made mandatory from being a voluntary membership organization.

Those who intend to practice tax accountancy must, in principle, register as certified public tax accountant and join a certified public tax accountants association before being able to practice. The Japan Federation of Certified Public Tax Accountants' Association was formed from an incorporated association based on the Certified Public Tax Accountant Law.

1961: Registration Transferred

In order to strengthen the autonomy of the certified public tax accountants associations, the registration function was transferred from the National Tax Agency to the Japan Federation of Certified Public Tax Accountants' Associations.

1980: Major reform undertaken since the founding of the system

Mission of the certified public tax accountants was clearly defined. The areas under their jurisdiction

from being limited to 7 tax classifications to include all tax classes. Membership into the association became automatic upon registering as a certified public tax accountant (those who register as a certified public tax accountant will naturally become a member of a certified public tax accountants association). Training was made mandatory. Establishment of branches of the certified public tax accountant association was made express.

2001: Establishment of the current system

Creation of a system in which, in a tax litigation, a certified public tax accountant will appear as an assistant to the legal counsel and able to offer testimony. Requirements for taking the certified public tax accountant examination relaxed. Review was made of the exemption system for examination subjects in the certified public tax accountant examination. Registration system was reviewed. System allowing for incorporated certified public tax accountants was introduced. Elimination of regulations relating to the maximum limitation on tax accountant compensation was removed. Elimination of regulations relating to dismissal of directors of certified public tax accountants association and the Japan Federation of Certified Public Tax Accountants' Association by the Minister of Finance was eliminated.

7. Certified Public Tax Accountant Operations

A certified public tax will undertake the following tasks based upon request from others.

(1) Tax Representation

Represent or act on behalf in presenting cases to the taxing authorities (including National Tax Tribunal) against tax examination or disposition including filing, application, demand, lodging of protest based on the provisions in the Tax Law or Administrative Appeal Law. A certified public tax accountant, when acting as a tax representative, must submit a power of attorney from the client to the taxing authorities. Onsite observation is another important facet of the job of the certified public tax accountant. When acting as a tax representative and meeting with the staff of the taxing authorities, the certified public tax accountant must present certified public tax accountant certificate.

(2) Preparation of Tax Documents

Prepare documents including tax returns and applications for submission to the taxing authorities. When preparing and submitting tax documents such as tax returns to taxing authorities, the certified public tax accountant must sign and affix seal impression on such documents.

(3) Tax Counseling

In relation to making declarations, statements, testimonies or preparation of returns, provide counseling on items relating to calculation of standard of tax assessment.

(4) Accounting

Related to the certified public tax accounting tasks, prepare financial documents, make entries to accounting books on behalf of a taxpayer and perform other administrative tasks relating to financial matters.

(5) Assisting in Tax Related Litigation

In legal actions relating to taxation, appear in court with the litigation agent (lawyer) and offer testimony and support the taxpayer.

Tax representation, preparation of tax documents and tax counseling, regardless of whether fee based or gratis, may only be performed by a certified public tax accountant. Further, persons not qualified as a certified public tax accountant may not use the title of "certified public tax accountant" or "certified public tax accountant office" or other similar titles.

8. Current State of Certified Public Tax Accountant

(1) Ethics

In the event there are any illicit activities with respect to taxation on the part of the client, a certified public tax accountant must advise the client to remedy his or her actions. In order to meet the client's confidence the certified public tax accountant has an obligation to maintain confidentiality of all information obtained in the course of performing his or her tasks enabling the client to engage his or her services with some assurance. The same obligations are placed upon employees of the certified public tax accountant. Certified public tax accountants are prohibited from taking actions that are detrimental to the credibility and dignity of certified public tax accountants and must prepare books relating to certified public tax accounting tasks and has an obligation to supervise employees.

(2) Qualified Person

Qualified person must meet one or more of the criteria below:

- (i) Has passed the certified public tax accountant examination
- (ii) Has been exempted from the certified public tax accountant examination (such as certain National Tax Agency staff)
- (iii) Lawyers (including those who are qualified to become a lawyer)
- (iv) Certified public accountants (including those who are qualified to become certified public accountants)

Based upon meeting the above, he or she is registered in the certified public tax accountant registry at the Japan Federation of Certified Public Accountants' Association and has joined a certified public tax accountant association to perform tax accountancy tasks.

(3) Number of Qualified Persons

There are roughly 20,000 certified public accountants (including assistant accountants) among a total population in Japan of approximately 120 million. There are some 70,000 certified public tax accountants. The number of incorporated enterprises is roughly 3 million and 95% are small enterprises not requiring the services of a certified public tax accountant. These juridical persons are enterprises where the shareholder is the representative and almost no external disclosure of financial statements is required and accounting is performed under tax law basis rather than applying the accounting standards to make their declarations. In addition, under the Certified Public Accountant Law, a certified public accountant may not make tax filings for juridical persons that he or she is auditing.

(4) Compensation

Until 2001, there was "Regulation Regarding the Maximum Limit for Compensation for Certified Public Tax Accountants" by law but it has served its purpose and with the reform was abolished.

(5) Results

At the beginning when the certified public tax accountant system was introduced, the tax system itself was formative and the morale of tax staff was not always good. However, through granting of certified public tax accountant qualification upon retirement from tax staff position, this has provided some improvement by providing a degree of economic and social security. Even if the taxpayers have not fully accepted the bookkeeping accounting system, with a certified public tax accountant who is a spokesman, the administrative side functions smoothly in the execution aspects.

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Coordination of services by Certified Public Tax Accountants and Certified Public Accountants

Over the past 11 years since first examination of Certified Public Accountants (CPAs) was conducted in 1993, a number of CPAs has reached approximately to 1100 and operations of organizations influencing accounting practice such as Accounting Policy and Methodology Department of the MOF, Accounting Committee under the MOF and Mongolian Institute of Certified Public Accountants, have been formed. As the same time, a system for preparing for and implementing CPA examination, granting license, supervising over activities and compliance of Code of Conducts of CPAs was established accordingly. Currently, 38.3% of CPAs are working in corporations, 31.7% in public sectors, 18% in auditing companies, 9.8% in educational sectors and remaining 2.2% in other sectors.

At present, approximately 200 CPAs are working 46 auditing companies and in large part, they provide an audit of the corporations' financial statements. Assessment and payment of taxes is obviously inspected simultaneously within the framework of an audit of financial statements. However, a scope of auditors' works is limited. The following persons are subject to compulsory audit under the existing Auditing Law of Mongolia:

1. Joint Stock companies registered to Stock Exchange;
2. Business entities with registered capital of 30 million tugrugs or more;
3. Business entities selling all assets through auction;
4. Business entities with foreign investment;
5. State enterprises or entities with state ownership;
6. Banks, financial and insurance agencies; and
7. Securities companies or investment funds operating as a broker or dealer.

Number of corporations in Mongolia is 31216 including 262 State enterprises, 158 enterprises with local ownership, 420 Joint stock companies, 22978 Companies with limited liabilities, 2429 Limited partnerships, 1817 Unlimited partnerships, 2787 Cooperatives, and 365 Savings and Credit unions. As of 2003, those 46 auditing companies performed the audit of the financial statements of merely 3356 corporations. Relying on present capacity, they can audit

a maximum of 4600 corporations and therefore, accuracy and fairness of financial statements of approximately 26700 corporations remains undetermined or uncontrolled.

There are justifiable grounds to say that one of the prerequisites for increasing tax revenue is the enhancement of accounting practice and quality of financial statements. During the 2001 Accounting inspection, approximately 65 percent of all corporations prepared financial statements, but 85 percent thereof submitted their annual reports in 2003. Whereas Corporate income tax revenue amounted to 43,8 billion tugrugs in 2001, it was 53,7 billion tugrugs thereby increased by 10 billion in 2003. This growth is resulted not only from business developments and operations of the tax authorities, but also from increased level of financial statements and assurance of fairness thereof provided by auditing companies. Therefore, it is desirable to establish a structure under which every single taxpayer can receive tax-consulting services. This is the meaning of introduction of the Certified Public Tax Accountant System (CPTAS).

Having introduced this system, there would emerge two systems: Certified Public Accountant System and Certified Public Tax Accountant System. Since both systems currently provide similar services in terms of tax consultancy, it is essential from this first time of introduction to set clear boundaries between functions of those two systems and shape up uniform understanding at both managerial and executive levels. It worth considering that accountants of those two systems may likely come into regular conflicts such as quarrel over customers, or criticize each other etc.

Most importantly, we have to reach an agreement on main fundamental point: CPA is the highest degree of Accountants, while CPTA is not a professional degree, but is commission given by the Government to specialists qualified in tax consulting. Therefore, even CPAs should obtain this commission upon satisfying certain requirements of qualification.

To qualify as CPAs, applicants are currently taking following exams:

- Theory of Accounting (Financial Accounting, Cost Accounting, Managerial Accounting, Analysis and Interpretation of Financial Statements, International Accounting Standards);
- Practical case studies of Accounting;
- Practical case studies of Auditing (including International Auditing Standards);
- Laws (Business related laws and tax laws).

I suggest that applicants for becoming CPTA should have following qualifications:

1. Holding Bachelor or higher degree, majoring in accounting;
2. Having at least two years practical experience as an accountant at corporations, or as a state tax inspector for the same period;

3. Having passed following exams:
 - a. Practical case studies of Accounting (with same content of CPA examination);
 - b. Business related laws
 - c. Tax laws and practical matters

Once agreed on above points, it also becomes required to agree on following conditions:

1. To become a CPTA, a CPA should successfully pass a “tax laws and practical matters” exam;
2. A CPTA applying for qualification of a CPA should be exempted from two exams: Practical case studies of Accounting, and Laws;
3. CPTA examination should jointly be organized by the CPTA Association and the Mongolian Institute of CPAs in order to meet requirements of the examination.

Acceptance of those 3 principled points can facilitate coordination or interrelation between CPAs and CPTAs and deregulation of various relations that are transferable from one to another. It is appropriate that Director General of the GDNT makes a decision on granting commission of CPTAs and the Certificate is signed by authorities like the GDNT Director General, the Head of the CPTA Association and the President of the MICPAs. Since both CPA and CPTA examinations are implemented here, the Certificate is supposed to get signed by the President of MICPAs because of two requirements: first, to confirm fairness of the examinations and second, to supervise over granting of the Certificate.

As mentioned above, a scope of work of two accountants should be distinctly defined. Following points should be considered in answering: “What are CPAs supposed to do?”:

1. The Auditing Law provides for corporations that are subject to compulsory audits;
2. In accordance with a provision of this law that allows voluntary request for an audit, there is an increasing tendency of audits requested by Limited Liability companies and some cooperatives that are successfully expanding their business recently.
3. Auditors should conduct an audit of financial statements of corporations specified above and also undertake tax accountant services such as tax agent, document preparation and consulting services.

However, it is needless for CPTAs to compete for providing services to certain corporations that are covered by auditing companies. Currently, those auditing companies can administer a maximum of 4500 corporations and behind them, there are approximately 26700 small corporations and thousands of individuals who are obliged to file tax returns. CPTAs should work with them. In terms of securing fairness of operations, it is not desirable for CPTAs serve as tax inspectors concurrently.

CPTA must be a person who satisfies interests of both the tax administration and the taxpayers, assures fairness, respects for laws and conducts their professional duties in a manner that reflects credit upon themselves and their profession. For said reasons, the CPTAs should have own Code of Ethics or Standards of Professional Conduct and take an oath.

Similarities and differences of systems of CPAs and CPTAs

No		Certified Public Accountant	Certified Public Tax Accountant
1	Scope of work	Medium or larger corporations: audit of financial statements Tax consulting services	Corporations remain un-audited: - Tax consulting services
2	Issuance of Certificate	Minister of Finance	Director General, GDNT
3	Authority in charge of examination	Mongolian Institute of Certified Public Accountants	Certified Public Tax Accountant Association Mongolian Institute of Certified Public Accountants
4	Type of examinations	Theory of Accounting Practical case studies of Accounting Auditing Business related laws and tax laws	Practical case studies of Accounting (with same content of CPA examination); Business related laws Tax laws and practical matters
5	Mutual acceptance	To recognize examinations of Practical case studies of Accounting and Laws as taken if an applicant holds a certificate of CPTA	To allow taking only examinations of Tax laws and practical matters if an applicant holds a certificate of CPA

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Tax Accounting System and further perspectives

Development and objectives of Tax Accounting

Well-compliance of tax laws, coupled with enhanced level of accounting practices by taxpayers and tax collection implemented through Tax Accounting System, brings effective results to have tax revenue increased considerably. Economic role of taxes that ultimately aims at increasing social welfare and fiscal revenue is emerged with intention of assisting taxpayers in preparing complete and accurate tax documents and preventing them from risks that may arise in the course of compliance of tax laws. In 1919, Germany provided in its tax legislation for CPTAs, followed by adoption of such system in countries like Austria, Sweden and the USA. In Asia, the system was introduced for the first time in Indonesia in 1950, in Japan in 1951, and in Korea in 1961.

A wide application of complicated provisions in tax legislation in respect of taxable objects and regulatory or supervisory roles of taxes in economic sphere makes it imperative to use special methodology of recording and declaring taxes. It is unsatisfactory to leave such provisions just by making explanation or reference because uncertainty of impenetrable and incomprehensible provisions of the law will lead to distort enforcement of the law due to misunderstanding or misinterpretation of both the letter and spirit of the law. Computation of taxable income requires a systematic or scientific study or further modification of issues such as a basis of taxation or assessment, principles of tax accounting, suitable approaches of recognizing revenue and expenses and other special or advanced methods or methodologies. Therefore, utilizing CPTAs in preparing tax return will enable taxpayers to have their legal rights are protected by qualified professionals and devote more time to their primary business. This is one of the advantages of the system.

With an expansion of market relations, demand of Tax Accounting System will become much increased resulting from needs for protecting investors' and taxpayers' interests, ensuring reliable source of tax revenue and creating an enabling environment for information development. Tax Accounting System can be understood as an integrated system encompassing interdependent issues of a) Methodology for recording tax effects arising from different provisions of tax laws in Accounting and b) Certified Public Tax Accountants.

The Accounting Law of Mongolia requires using the accrual basis of accounting in preparing financial statements in conformity with the international accounting records, but tax laws do not clearly provide for basis of accounting. This is a true fact today that discrepancies of understanding arise due to such uncertainty between taxpayers and tax authorities, for example, tax authorities sometimes insist determining some transactions on a cash basis of accounting. Although both the taxpayers and tax authorities prepare a number of statements or documents in respect of taxes, statistics mostly mismatch and therefore, cannot satisfy needs of users thereof. Clarifying such vagueness and determining differences between tax and financial accountings can facilitate further enhancement of tax mechanism through accounting approaches and methodologies. Objectives of introducing Tax Accounting System is to enhance compliance of tax laws and provide users with accurate information in a way of processing tax related information and data based on double entry.

Interrelation of Tax mechanism and Tax accounting system

Tax mechanism is a real action collectivizing a part of national income and administering relations of redistribution and plays an important role in keeping the economic interests of both the state and taxpayers balanced in terms of organization and coordination thereof. Tightening roles of tax mechanism aims at normalizing economy and creating regular and reliable source of revenue on its background. For establishing rational system of tax compliance, tax collection, audit and responsibility, it is indispensable to process objective information in an accurate and timely manner in order to provide users therewith. Moreover, accounting and financial supervision system that enables to conduct appropriate analysis of information is also indispensable to creating a more transparent and efficient environment of information and accounting.

Since enforcement of tax laws exercises tasks handled within a scope of calculating, recording and declaring taxes, the managers will need facilities for creating enabling environment for information system that encompasses in itself hardware, software, accounting methods and methodologies converting inputs into processed information, qualified professionals and automatized system. One of the prerequisites for making correct decision is a supply of reliable and complete information to users of financial information that assists them in making their decision. This is a main goal of tax accounting. Successful implementation of this system depends not only on more sophisticated methods and methodologies of accounting, but also on CPTAs. Tax accounting is designed primarily to accurately determine and compute a taxable base and amount of taxes in accordance with the tax legislation and therefore, is closely related to interests of both the State and taxpayers. In many countries, the CPTA System was

established for the purpose of helping to make tax system operate more fairly and smoothly by requiring the relevant authorities to calculate and record taxes in a fair and professional manner because the Government regulates a number of social and economic issues through its tax policy. Studies on Mongolian tax system and presentation by the President of the Federation of tax consultants of Asia Pacific countries recommended and highlighted an importance of introducing CPTA System in Mongolia. This is a clear indication that Tax Accounting System is missing in Mongolian tax system.

Certified Public Tax Accountant

CPTA is a tax expert who functions as a bridge between the Government and taxpayers by assisting taxpayers in protecting their rights and complying with tax duties. Having obtained an authorization from competent authorities, CPTAs undertake responsibilities of performing tax-consulting services in a professional and ethical manner and therefore, their role in society is peculiar as it keeps a balance of economic interests of the Government and taxpayers.

Although implementation of tax laws and collection of fiscal revenue are main functions of the tax administration, it has become practical in developed countries that Government receives an assistance of NGOs or public organizations in this field. Therefore, tax accounting system is legalized so that rights and obligations of the implementation thereof are entrusted with NGOs. Such organizations help the tax administration by preparing CPTAs in a way of implementing training courses on the subject of accounting and tax laws, preparing handbooks and educational materials and providing with counseling etc.

The following table illustrates an outline of a practice that CPTAs are prepared in Japan and Korea.

	Japan	Korea
Legal acts	Certified Public Tax Accountant Law, enacted in 1951 contains 8 chapters and 64 Articles.	Tax Accountant Act, enacted in 1961 contains 8 chapters and 23 Articles.
NGOs	Japan Federation of Certified Public Tax Accountants' Association	Korean association of Certified Public Tax Accountants
Subjects of examination	9 subjects on Accounting, Financial Accounting and Tax laws	Accounting, Financial Accounting, Cost Accounting, Public Finance, Tax laws

Term of validity	Permanent	Permanent, provisional
Person obliged to file tax return	Taxpayer on his own or Tax accountant in case he or she conducts tax proxy	Taxpayer on his own or Tax accountant in case he or she conducts tax proxy

Looking at a practice of preparing CPTAs, public organizations handle with implementation of training, re-training and CPTA examination, while Government agencies grant commission or rights to provide professional services.

Responsibilities of Certified Public Tax Accountants

The CPTA conducts tax proxy on behalf of taxpayers, i.e. acts as an agent for a deputy for:

1. Filing tax return, application, claim and administrative protest, conducting research, and making clarification or correction in respect of taxes;
2. Making accounting entries in respect of taxes, reflecting them in statements or tax return, and preparing necessary documents;
3. Providing with tax counseling or proposals with respect to tax laws;
4. Communicating or negotiating with tax office on matters in respect of examination, tax audit or disposition by tax authorities; and
5. Confirming tax documents etc.

At present, those tasks are being handled by accountants of corporations, but lack of tax laws and practical abilities thereof gives rise to inaccuracy of statements or tax returns and discrepancy of data or other calculations processed by the tax authorities. Therefore, it is desirable for both taxpayers and tax authorities that CPTAs conduct such tax proxies.

Meaning of introduction of Tax accounting system

Introduction of this system is proposed because of following advantages:

- Communicating or negotiating with the tax administration through tax accountants will enable taxpayers devote more time to their primary business rather than spending time to making tax returns;
- Taxpayers will be prevented from any risks arising due to lack of knowledge of taxes and accounting;
- Executing all tasks in respect of making tax return and tax payment with assistance of tax accountants will facilitate further increase of tax revenue;
- Coordination of tax returns and other documents prepared by taxpayers will be enhanced significantly;
- Public awareness or perception of taxes will be influenced positively;

- Problems faced by the tax administration arising from poor knowledge of taxes and accounting will diminish and this will lead to enhancement of activities of the tax administration; and
- System will require tax staff to improve their skill and knowledge, and secure economic and social security of tax staff after their retirement.

Prospect of introducing Certified Public Tax Accountant System in Mongolia

For Mongolia that has irrevocably embarked upon the road of market relations, there is no way other than going along by trends of social development and circumstances of this era of globalization. A part of measures to be taken within a scope of tax policy that is consistent with peculiarity of special circumstances of the country is the introduction of a CPTA System. It is obvious from international practices that highly qualified and skilled professionals are indispensable to eliminating infringements occurring in a process of tax compliance. We have a potential to resolve this problem with an assistance of NGOs. As you know, the first NGO to help tax administration was set up in our country in 2001 on an initiative of founders and has been operating to date.

Kaikei, a joint Mongolian and Japanese Association of tax accounting has currently gathered and translated information in respect of tax systems of Korea, Japan and China and also has conducted researches on own tax system and made its Research series #1 public. Today the association has been carrying out its activities with around 100 members and supporters comprising tax staff, professors of universities and member organizations. As a member of the Federation of tax consultants of Asia-Pacific countries, the association has accumulated considerable experiences by participating in meetings and seminars hosted by the federation, exchanging information therewith, and getting acquainted with tax and tax accounting systems of other countries.

The association joined this federation during its 9th meeting held in Malaysia in February 2002 where Mr. Mishiglunden, a head of the association participated and gave a speech of gratitude. This was an important event for the association that put a foundation for further communication or cooperation with tax associations of Asia-Pacific countries. 10th meeting of the federation was held in Kyoto, Japan with an attendance of approximately 1000 representatives, 10 out of which were from our association. The Vice Minister of Finance of Japan attended this meeting with his presentation. This was clear evidence that the Government of Japan highly supports a cooperation of NGOs in tax activities. At this time, our association organized its second meeting

in Japan and Mr. Hirano Yoshiaki, a founder of the association made us an access to tax system of Japan.

One of examples that the Federation of tax consultants of Asia Pacific countries is giving importance to introducing CPTA System in Asian countries is a visit by Jontoi Ku, a president of the federation during which he organized a seminar in our country in August 2004. It has become open for Mongolia to send articles about the association, tax administration and tax system of Mongolia to periodicals or bulletins published by the federation.

It is pleasant to say that the association has a team consisting of skilled and experienced members and supporters who are most willing to devote themselves to introduction of the tax accounting system in Mongolia.

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