

## **Article 16. Special Treatment of Taxation in Free Zones**

16.1. The following tax exemptions and credits shall apply to free zones:

16.1.1 Goods imported from overseas to a free zone shall be exempt from the levy of import tax, customs duties, VAT, and excise tax;

16.1.2. No tax shall be charged for goods entering a free zone, which are previously imported into the customs territory upon payment of import tax, customs duties, VAT, and excise tax. Deductions shall be made from other taxes against presentation of payment receipts for taxes paid in the customs territory;

16.1.3. VAT shall be charged at "0" rate when Mongolian goods are brought into a free zone from the customs territory;

16.1.4. In addition to goods referred to in Clause 38.1.4 of the Law on Customs Tariff and Duties, goods purchased by a visitor not exceeding a total value of MNT3.0 million shall be exempt from the customs duties and VAT when entering the customs territory from a free zone;

16.1.5. Goods other than those referred to in Clause 16.1.4 shall be subject to the customs duties and other taxes under applicable laws when entering the customs territory from a free zone;

16.1.6. No taxes shall be levied on goods exiting a free zone to overseas;

16.1.7. No VAT shall be charged against goods manufactured or sold or services rendered in the territory of a free zone by a natural or legal person registered in such free zone.

16.2. The Government shall timely approve the list of goods worth up to MNT3.0 million as referred to in Section 10.2 and Clause 16.1.4 of this Law.

16.3. Goods worth up to MNT 3.0 million as referred to in Section 10.2 and Clause 16.1.4 of this Law shall not include such goods that are subject to excise tax, medicines, medical supplies, and biologically active supplements.

16.4. The following tax exemption and credits shall apply for free zones in terms of corporate income tax:

16.4.1. if a business entity invests USD500.0 thousand or more for such infrastructure as energy source, heat source, engineering network, pure water supply, sanitary system, auto road railway, airport, communications network etc. of a free zone, corporate income tax credit equaling to 50 percent of its investment shall be offered to such entity in terms of its revenues generated from such free zone.

16.4.2. if a business entity invests USD300.0 thousand or more for the purposes of construction of a storage house, a loading and unloading facility, a hotel, a tourism complex, a manufacturing facility to substitute import, or a manufacturing facility for export products, corporate income tax credit equaling to 50 percent of its investment shall be offered to such entity in terms of its revenues generated from such free zone.

16.4.3. Losses incurred by an entity investing to a free zone as shown in its tax statements shall be deducted from the taxable income of such entity during the first five years from its commencement of production of operation following its target construction.

16.5. In addition to those provided in innovation and high technology based production in a free zone shall be exempt from corporate income tax during the first five years from its commencement of economic operation;

16.5.2. The facilities constructed and recorded in the register of a free zone shall be fully exempt from immovable property tax.

16.6. A legal person registered in a free zone shall file its financial and tax statements of its operations in such free zone to the Governor's Office of such free zone.