Japan’s 10-year Technical Cooperation in Mongolia for Tax Administration

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1. Introduction
JICA implemented technical cooperation in Mongolia for tax administration for 10 years from 1998. This Report analyzes the process and approach of the 10-year cooperation by JICA, casts light on how JICA supported Mongolia’s tax system and tax collection enhancement, and studies possible approaches in implementing more effective technical cooperation in the future.

2. Background of cooperation – Mongolia just after the transition to a market economy
Mongolia established a constitutional monarchy under the support of the Soviet military in 1921. Since the formation of Mongolian People's Republic in 1924 the country had maintained a socialist system under the leadership of the Soviet Union. With the surge of pro-democracy movements in the 1980s, the country decided to introduce the multiparty system in 1990, and made the shift to democracy and introduced a market economy.

Just after the transition to a market economy, the stoppage of assistance by the Soviet Union, privatization of national properties for the transition, failure in privatizing of state-owned companies and other factors brought about a recession and slowdown in economic growth. Mongolia’s GDP growth rate was negative just after the transition and remained unstable long after that (Figure 1.)

Figure 1 Changes in Real GDP growth rate
Source: IMF - World Economic Outlook Databases

1 Here, JICA’s technical cooperation refers to “development studies” and “a technical cooperation project.” Though research cooperation was implemented before 1998 and country-focused training and follow-up cooperation programs were implemented after 2008 when the technical cooperation was completed, the Report mainly covers four development studies and one technical cooperation project implemented from 1998 to 2008.
Furthermore, the absence of a modern tax collection system in the socialist regime made the country suffer a budget deficit due to chronic revenue shortfall just after the introduction of market economy. As indicated in Figure 2, the country ran a budget deficit after the transition. For a sound development of the country, it was a pressing issue to reduce the tendency to have chronic deficits and strengthen the country’s financial basis by strengthening spending control and tax collection capacity.

Figure 2 Changes in fiscal balance

Source: IMF - World Economic Outlook Databases

In this context, JICA continued assistance for the Mongolian Tax Authority in tax administration including the development of a tax collection system, information system and human resources in five phases from 1998 to 2008.

3. Changes in Assistance Approach

3.1 Overall picture of the approach

JICA’s technical cooperation in Mongolia for tax administration for 10 years from 1998 to 2008 can be roughly divided into the three stages of “problem analysis and institutional design,” “enhancement of individual capacities” and “compile the efforts.”
Comprehensive problem analyses in Phases 1 and 2 revealed the following problems concerning the “unstable tax revenue” that was the central issue in tax administration at the time (see Attached Table 1 for the detail of the individual issues.)

Figure 3 Chronology of Cooperation in Mongolia for the Tax Administration

Source: created by the author based on JICA materials

Figure 4 Problems of tax administration when cooperation started and necessary approaches to address them

Source: Created by the author based on JICA materials
Mongolian tax administration in 1990 had all kinds of problems at the institutional/social system, organizational and individual levels including the legal system, organizing function of MTA, capabilities of human resources, the environment for paying taxes and taxpayers’ awareness. In this context, Japan’s cooperation efforts addressing the problems of tax administration may be sorted out according to the approach based on a comprehensive point of view that it is necessary to enhance the total power of society, that is, the concept of Capacity Development (CD). Based on the concept of CD, a series of cooperations by JICA in Mongolia for tax administration can be organized as an approach aiming to build specific policies, a legal system and organizations covering a broad area including the national level and strengthen their operation as illustrated in Figure 5.

Figure 5 Approach of the cooperation aiming to support policy/institution development and enhancement of capacities
Source: created by the author based on JICA materials

3.2 Specific approaches at each phase
Cooperation efforts made for individual cases at each phase and their effects are described below:

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2 CD is a process where developing countries increase their overall capacity at multiple levels including individuals, organizations and society to address issues (Towards Capacity Development (CD) of Developing Countries Based on their Ownership (March 2006, JICA)}
In Phase 1, at the request of the Government of Mongolia for study to assist formulation of a concrete economic reform program and cultivation of human resources capable of making economic policies for Mongolia, JICA implemented three components: “Review and formulation of a medium-term development strategy and public investment plans,” “Specific Theme 1: Tax collection enhancement” and “Specific Theme 2: Task analysis concerning financial institutions and study of measures for bank service deployment in local regions.” For the tax collection enhancement, 1) existing tax collection laws and systems were reviewed, 2) existing tax revenue data were analyzed, 3) tax collection organizations were analyzed, 4) a tax collection system improvement plan was formulated, 5) a manual for tax collection officers was developed, and 6) seminars for tax collection officers were held.

<Key features and achievements>
Achievements of Phase 1 are described below. Their key feature is involvement in the organizational development and institutional design that would form the foundation to expand the tax collection base; including a radical organizational reform and provision of an official receipt system as a basis for tax inspection and collection.

(1) As recommended by the study, a major functional and organizational reform was implemented for MTA’s tax collection division in February 2000.

(2) “Registration system” for large-scale taxpayers and a system of official receipts issued by MTA for other taxpayers were introduced by the order of the Minister of Finance and the Minister of Agriculture and Forestry in March 2003 and a government order in January 2001. The systems enabled the state to directly grasp economic transactions above a certain amount conducted by companies and citizens, and made it easy for MTA to grasp the contents and validity of taxpayers’ declaration as well as undeclared incomes.

(3) A new guideline and manual for detection of hidden properties, taxation on them and tax collection were adopted as MTA’s manual in February 2000.

(4) Improvement of an incentive system for informants concerning tax evaders

(5) Reestablishing of the performance evaluation, promotion and incentive standards for tax officers

<Major issues addressed during the phase> (Issues with special focus are shown in yellow shade. Color strength indicates the level of achievement.)
Phase 2: The Study on Economic Transition and Development Support in Mongolia  
(Tax Collection Enhancement 2) (June 2000-July 2001)  

<Outline>

The Government of Mongolia had an especially high appreciation regarding the achievement of “tax collection enhancement” among the study items mentioned above and asked Japan for continuing cooperation in this field. In response to the request, JICA, deeming that enhancement of tax collection for each kind of tax would increase the effect of the technical transfer of tax collection practice implemented in The Study on Economic Transition and Development Support, decided to implement the Tax Collection Enhancement 2. This study covered “study of the tax collection mechanism and environmental improvement on the government side,” “Study of the tax accounting and refund mechanism and environmental improvement on the taxpayers’ side,” “Study on the introduction of new taxes (including property tax)” and “Review of the proposal for tax act revision and examination of the final version.”

<Key features and achievements>

Through Phases 1 and 2 circumstances surrounding the revenue of Mongolia in the transition to a market economy were grasped and various recommendations were made with a focus on “fair and adequate systems, low tax collection costs, easy implementation (minimizing taxpayers’ discontent and ensuring acceptability for taxpayers,) urgency of implementation and expansion of the tax base rather than raising it.” This viewpoint is important in that it considered the tax administration within the capacity of the country based on a good judgment of the situation.

Major achievements of Phase 2 are as follows:

1) Concerning the tax system: creation and revision of key tax laws

   At the start of Phase 2 the government of Mongolia asked for cooperation regarding the revision of all tax laws of the country as an urgent task. In response to the request, the study team worked on the revision and establishment of the entire tax law system from July to December 2000 and compiled the results in a recommendation. Based on the recommendation, the following tax system was enacted in the Diet session in 2001:

   1) A property tax act and a special stamp tax act were established.
   2) Individual tax laws were revised (individual income tax law, corporate income tax law, value-added tax law, special tax law, vehicle tax law, automobile gasoline and diesel fuel tax law)³

³ Mongolian tax laws at the time were so simple that their execution inevitably depended on the interpretation by the authority. There was little legal stability and predictability especially for foreign companies. Therefore, the team worked on the clarification of the domestic laws in order to guarantee legal stability and predictability in Phase 2. For example, the old income tax act consisted of 12 articles
In addition, the team made a recommendation for laws concerning supervision of taxation and tax payment and collection (process laws) that are important for tax administration. The recommendation was deliberated at the Diet.

(2) Concerning taxation: Improvement of taxation by estimate

At that time, income was determined by estimate in tax inspections in Mongolia as well. However, when taxation was disputed, it was often reversed due to failure to demonstrate the reasonableness of the estimate method based on objective sources of evidence. To address the situation, the team organized specific method to conduct taxation by estimate logically and systematically, compiled a manual and held technical transfer seminars.

(3) Concerning tax inspection: recommendation towards efficiency improvement of corporate tax inspection

Since the period of Phase 1 problems were pointed out including: rough selection of inspection targets (no selection criteria,) tax inspection method (focus was on the books while on-site inspection and hearing tended to be ignored,) tax information data system (information stopped at individual inspectors and was not shared; information useful for tax inspection was not shared with other organizations.) Concerning these problems, more specific recommendations were made in Phase 2, which include improvement of the method to choose inspection targets, diversification of inspection methods and establishment and effective use of a tax information data system. Because “establishment and effective use of a tax information data system” among the recommendations was essential for improvement of efficiency and accuracy of tax inspections and improvement of the tax collection rate in the future, it was decided to implement Phase 3 exclusively for “Taxpayer Information System Establishment.”

**<Major issues addressed during the phase>** (Issues with special focus are shown in yellow shade. Color strength indicates the level of achievement.)

- Develop an implementation system to prevent tax evasion and arrearage
- Create an environment for tax payment
- Raise awareness of taxpayers
- Develop a legal system
- Develop MTA organization
- Develop MTA's human resources
- Improve inspection implementation methods and system

During Phases 1 and 2 the team comprehensively identified also other issues surrounding tax

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4 Taxation by estimate refers to determination of income based on some indirect materials other than books and documents.
administration in terms of institutions, implementation, and the tax payment environment, for example. The phases were important steps in which the team listed up the full range of issues to be tackled by Mongolia in the future, while at the same time working on more urgent organizational reform and institutional revision that were fundamental to future development (for the list of issues identified in the first two phases, see Attached Table 1.)

| Phase 3: The Study on Economic Transition and Development Support in Mongolia  
(Tax Collection Enhancement 2: Support to Taxpayer Information System Establishment)  
(November 2000–February 2003) |

<Outline>

In the process of Phase 2 Study it was revealed that establishing a taxpayer information system was essential for the improvement of the tax collection rate. The Government of Mongolia therefore asked the Government of Japan for extension of Phase 2 and the study was extended in response (the extended part of Phase 2 is treated as Phase 3 in this Report.)

Inspection skills of MTA staff had been improved in Phase 3 compared with Phase 1. On the other hand, the tax inspection was inefficient because taxpayer information stayed at individual inspectors and information useful for tax inspection was not shared with other organizations. To address this situation, the team developed a “third party information system” for inspectors to share various pieces of information and use them for inspection. This is a system to check returns against third-party information by matching MTA's taxpayer information with information of other organizations including customs, thereby contributing to the improvement of inspection efficiency and effects.

In addition to building the third-party information system, a review of education for tax officers and taxpayers as well as a future project plan were compiled. The project plan of tax officer education served as a draft of Phase 4.

<Key features and achievements>

The introduction of the third-party information system drastically increased the collected amount including additional collections, interest and penalties, and later dramatically improved MTA’s inspection efficiency and effectiveness. The ex-post evaluation of Phase 5 conducted in 2012 confirmed the use of the system when carrying out inspection and receiving returns not only in the capital but also in local tax offices. In the process of the ex-post evaluation of Phase 5 its subsequent use situation was confirmed with a MTA official, who answered “when Phase 3 started, we knew the concept but not much about the system itself. However, we deepened our understanding by observing how it was used in Japan during the training in Japan. Now, our operations are impossible without the system.” This shows extent to which the system is effectively used for their operations.
<Major issues addressed during the phase> (Issues with special focus are shown in yellow shade. Color strength indicates the level of achievement.)

- Develop an implementation system to prevent tax evasion and arrearage
- Create an environment for tax payment
- Develop a legal system
- Develop MTA's human resources
- Improve inspection implementation methods and system

Phase 4: Study for Establishment of Tax Education System (November 2003-June 2005)

<Outline>
System infrastructure of Mongolia’s tax collection and the foundation of information infrastructure for expansion of the tax collection base were developed during the three phases described above. However, some inspectors conducted tax examination and collection at the inspection sites based on their own interpretation, which undermined taxpayers’ confidence in the office. In order to improve the situation, it was necessary to raise the level of tax inspectors’ ability by improving the entire training system. For Mongolia to address complicated issues of taxation and tax collection in the future, it was necessary to build a mechanism to continuously enhance the response capability of MTA staff by constructing an appropriate training and human resource development systems for them. In addition, the low level of the tax accounting and taxpayer awareness of citizens were found to restrict expansion of tax collection bases and therefore need improvement.

In this context, Phase 4 was implemented to achieve two goals: “Infrastructure development for the tax officer education system (Component A)” and “monitoring of the cooperation for tax collection enhancement and promotion of implementation (Component B).” For Component A, a plan to construct a tax administration education system (a long-term vision and a short-term action program) was formulated, a tax officer education curriculum was revised and basic education materials were created. For Component B, utilization of the third-party information system was promoted, recommendations were made toward operation of the tax accountant system, tools for public relations aimed at taxpayers were created and their implementation was supported.

<Key features and achievements>
(1) A basic policy concerning MTA human resource development titled “National tax inspector education program and curriculum (“New education curriculum”)” was decided by the MTA directorial board in December 2003. As a result, the old training with the main purpose of helping participants to pass the certification examination for acquisition and renewal (every two years) of the national tax inspector qualification was changed to have
Based on the new education curriculum, a “short-term action program (an activity plan concerning construction of training and human resource development systems) of MTA from 2006 to 2008 was formulated.

Teaching materials for training was not yet prepared when a series of cooperation efforts started, but materials for beginner, intermediate and advanced levels were developed from 2000 to 2005. A thick book covering all necessary items including income tax and VAT was created. The ex-post evaluation of Phase 5 conducted in 2012 confirmed that the teaching materials were valued highly by experts of other donors.

**<Major issues addressed during the phase>** (Issues with special focus are shown in yellow shade. Color strength indicates the level of achievement.)

<table>
<thead>
<tr>
<th>Issue</th>
<th>Achievement Strength</th>
</tr>
</thead>
<tbody>
<tr>
<td>Develop an implementation system to prevent tax evasion and arrearage</td>
<td>Strong</td>
</tr>
<tr>
<td>Create an environment for tax payment</td>
<td>Strong</td>
</tr>
<tr>
<td>Develop a legal system</td>
<td>Medium</td>
</tr>
<tr>
<td>Develop MTA's organization</td>
<td>Medium</td>
</tr>
<tr>
<td>Develop MTA’s human resources</td>
<td>Medium</td>
</tr>
<tr>
<td>Improve inspection implementation methods and system</td>
<td>Medium</td>
</tr>
</tbody>
</table>

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**Phase 5: Tax administration enhancement project (August 2005 – July 2008)**

**<Outline>**

Though the tax administration system was put into place to a certain degree at the end of Phase 4 of Japan’s cooperation, there were still many issues to be addressed for the Mongolian Tax Authority including the shortage of human resources who fully understood and were capable to use the entire system covering the human resource development system, efficient and effective tax collection and inspection methods and good service for taxpayers because MTA was a relatively young organization established in 1992. Therefore, as the final stage of the support, it was decided to implement a technical cooperation project centering on the three components of “human resource development and training system,” “enhancement of fair and adequate tax collection” and “improvement of taxpayer services.”

**<Key features and achievements>**

(1) Component concerning human resource development and training

Remote training (correspondence education) was introduced for tax officers in remote locations to improve their abilities without leaving their posts. In addition, learning opportunities were secured by increasing local training centers from two to four through

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5 Hearing survey of MTA officials (March 2012)
The correspondence education was approved after a trial in 2007. There were 157 participants from eight provinces in 2008. The number of training participants at the training centers greatly increased from 532 in 2006 to 919 in 2008.

The number of inspection targets decreased because the project focused on the quality of inspection rather than quantity and due to the requests made by district/provincial tax offices and parliament to decrease inspection targets and the decrease of full-time tax inspectors due to the officer reshuffle accompanying the setting up of a department in charge of collecting third-party and taxpayer information.

Facilities set up in tax offices to provide services covering taxpayer registration, consultation for taxpayers about returns, receipt of returns, certificate issuance, etc.

<table>
<thead>
<tr>
<th>Item</th>
<th>2005</th>
<th>2006</th>
<th>2007</th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Customs</td>
<td>14,061</td>
<td>300,990</td>
<td>645,067</td>
<td>220,040</td>
<td>181,332</td>
<td>178,330</td>
<td>181,807</td>
</tr>
<tr>
<td>VAT invoices</td>
<td>59,202</td>
<td>120,508</td>
<td>100,503</td>
<td>167,33</td>
<td>786,530</td>
<td>1,177,096</td>
<td>1,867,98</td>
</tr>
<tr>
<td>3rd-party information</td>
<td>4,74</td>
<td>15,107</td>
<td>16,500</td>
<td>19,449</td>
<td>13,330</td>
<td>20,391</td>
<td>87,010</td>
</tr>
</tbody>
</table>

Source: Mongolian Tax Authority

(3) Further improvement of taxpayer services

There were four taxpayer service centers at the end of Phase 4. Later, MTA independently allocated budget and distributed staff to increase the number to 25 by 2008. In Phase 5 efforts were made to improve their services by selecting one center as a model: introducing turn waiting management machines to improve waiting time, creating a space for viewing

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6 The correspondence education was approved after a trial in 2007. There were 157 participants from eight provinces in 2008. The number of training participants at the training centers greatly increased from 532 in 2006 to 919 in 2008.

7 The number of inspection targets decreased because the project focused on the quality of inspection rather than quantity and due to the requests made by district/provincial tax offices and parliament to decrease inspection targets and the decrease of full-time tax inspectors due to the officer reshuffle accompanying the setting up of a department in charge of collecting third-party and taxpayer information.

8 Facilities set up in tax offices to provide services covering taxpayer registration, consultation for taxpayers about returns, receipt of returns, certificate issuance, etc.
materials, installing personal computers and providing guidance concerning electronic tax filing method, for example.

Furthermore, utilization of IT was promoted and services using IT started including the development of VAT invoice\textsuperscript{9} entry software and the introduction of e-filing on the MTA website (“the Website”). As a result of the improvements, access to the Website greatly increased from 14,247 in 2005 to 55,027 in 2007.

Public relations for taxpayers used to be limited to a few occasions such as “Taxpayers’ Day” every May, but a variety of media including newspapers, radio, television and distributions were adopted for PR covering explanation and advice concerning enforcement and revision of tax laws and related laws, points to consider about tax payment and introduction of the tax office services. In addition, “tax consultation” and “frequently asked questions” sessions started on the Website.

\textbf{<Major issues addressed during the phase>} (Issues with special focus are shown in yellow shade. Color strength indicates the level of achievement.)

\textbullet\ Develop an implementation system to prevent tax evasion and arrearage
\textbullet\ Create an environment for tax payment
\textbullet\ Develop a legal system
\textbullet\ Develop MTA organization
\textbullet\ Develop MTA’s human resources
\textbullet\ Improve audit implementation methods and system

\section*{4. Achievements and impact of the 10-year project}
\subsection*{4.1 Effects on tax revenue}

Through the 10-year long cooperation, a tax collection system was established and MTA’s inspection and tax collection capacities were greatly improved. Coupled with the remarkable economic development in recent years, the country’s tax revenue increased more than 10 times during the period from 1998 when the cooperation started to 2008 when it ended (Figure 6).

\textsuperscript{9} Payment of value added tax. Businesses pay 10\% (tax rate) of added value (amount obtained by deducting purchases from sales) to the state through tax offices. Subject to value added tax are 1) goods and services sold in the country, 2) exported goods, and 3) all imported goods.
Furthermore, the increased tax revenue enabled the fiscal balance to turn into the black in 2005 and expanded the surplus in 2006. We can say that Japan’s cooperation with tax system reform and tax collection enhancement in Mongolia greatly contributed to “the strengthening of the financial basis through stabilization of tax revenue” that had always been an overall goal since the start of the cooperation.

4.2 Impact on tax collection and taxation

The following effects were confirmed as a result of efficiency improvement of inspection and tax collection:

1) Rate of disposition of delinquency (amount paid for the amount in arrears in the previous year)

The rate had been difficult to improve from just after the start of the series of cooperation initiatives to around 2004 (Phase 4) but has been gradually improving in the last 5 to 6 years. The reason for this may be that MTA’s continuing efforts to improve the situation have been slowly seeing results. In response to advice by Japanese experts MTA granted itself self-enforcement authority, improved systems including revision of the system to send notices and introduced demands for payment by telephone by tax offices, for example.

The country has experienced budget deficits in some of the recent years due to expenditure increases and sluggish rise of revenue caused by the price decline of copper and other mineral resources in addition to the increase of social-security-related costs as a result of social security measures that were implemented in succession.

The rate of disposition temporarily fell because amnesty was granted for failures to pay in and before 2008 after the enforcement of the Amnesty Act.

Provision to enable tax collection officers to seize and conduct public sales of the property of taxpayers who failed to pay tax based on their judgment without a judicial decision.

There used to be a system to forbid disposition for failure to pay taxes when the person who failed to pay tax refused to receive the notice. The system was changed to allow disposition for failure to pay taxes by providing that if a taxpayer refused to receive the notice, “it shall be deemed to have been notified to the taxpayer.” (material provided by JICA)
(2) Rate of receipt by the due date

The rate of tax receipt by the due date based on tax filing was between 80 to 85% for several years after starting the cooperation but reached 99% in fiscal 2011. The significant improvement was the result of the understanding of taxpayer compliance and adequate filing procedures facilitated by improved taxpayer training and public relations, and the improved convenience of paying tax through expansion of service centers and introduction of e-file, etc. since Phase 4. According to MTA undeclared income caused by inadequate documentation at the time of inspection or lack of understanding of tax laws has been decreasing year by year.

On the other hand, there has been no substantial change in payment of tax based on tax examination (inspection.) Contributing factors include a large number of cases in which taxpayers could not pay taxes on undeclared income or tax evasion found in inspection. To address this situation, MTA is considering assigning different persons for penalty collection as a result of inspection and for ordinary tax collection, respectively, and strengthening telephone notices.

Table 2 Rate of receipt by the due date

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</tr>
</thead>
<tbody>
<tr>
<td>1. Total amount of unpaid taxes at the end of year</td>
<td>47.9</td>
<td>38.4</td>
<td>45.5</td>
<td>58.3</td>
<td>88.7</td>
<td>106.1</td>
<td>171.3</td>
<td>217.2</td>
<td>292.8</td>
<td>237.2</td>
<td>318.9</td>
<td>102.3</td>
</tr>
<tr>
<td>2. Amount of paid taxes among the unpaid taxes of previous year</td>
<td></td>
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<td></td>
<td></td>
</tr>
<tr>
<td>Taxed</td>
<td>34.9</td>
<td>47.9</td>
<td>38.4</td>
<td>45.5</td>
<td>58.3</td>
<td>88.7</td>
<td>106.1</td>
<td>171.3</td>
<td>217.2</td>
<td>292.8</td>
<td>237.2</td>
<td>318.9</td>
</tr>
<tr>
<td>Collected</td>
<td>26.5</td>
<td>35.7</td>
<td>25.4</td>
<td>36.9</td>
<td>62.3</td>
<td>81.9</td>
<td>142.7</td>
<td>147.3</td>
<td>195.1</td>
<td>180.3</td>
<td>239.4</td>
<td></td>
</tr>
<tr>
<td>Balance</td>
<td>8.3</td>
<td>12.2</td>
<td>11.1</td>
<td>19.8</td>
<td>21.4</td>
<td>26.4</td>
<td>24.2</td>
<td>28.6</td>
<td>69.9</td>
<td>77.5</td>
<td>46.4</td>
<td>70.5</td>
</tr>
<tr>
<td>Rate of paid taxes %</td>
<td>75.9</td>
<td>74.5</td>
<td>66.1</td>
<td>56.5</td>
<td>70.0</td>
<td>77.2</td>
<td>83.3</td>
<td>77.8</td>
<td>66.6</td>
<td>76.6</td>
<td>75.1</td>
<td></td>
</tr>
<tr>
<td>3. Amount of tax payment by self-assessment</td>
<td></td>
<td></td>
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</tr>
<tr>
<td>Taxed</td>
<td>145.7</td>
<td>186.1</td>
<td>168.0</td>
<td>161.1</td>
<td>315.6</td>
<td>386.0</td>
<td>797.9</td>
<td>1,181.0</td>
<td>1,276.5</td>
<td>1,072.0</td>
<td>1,752.1</td>
<td>1,719.4</td>
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<tr>
<td>Collected</td>
<td>108.1</td>
<td>165.7</td>
<td>138.6</td>
<td>126.4</td>
<td>252.6</td>
<td>311.5</td>
<td>657.8</td>
<td>1,004.6</td>
<td>1,087.7</td>
<td>893.0</td>
<td>1,489.2</td>
<td>1,389.9</td>
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<tr>
<td>Balance</td>
<td>37.5</td>
<td>20.4</td>
<td>31.4</td>
<td>36.7</td>
<td>62.9</td>
<td>74.5</td>
<td>140.2</td>
<td>177.4</td>
<td>218.7</td>
<td>179.0</td>
<td>257.1</td>
<td>95.4</td>
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<tr>
<td>Rate of paid taxes %</td>
<td>74.2</td>
<td>89.0</td>
<td>82.5</td>
<td>78.5</td>
<td>80.0</td>
<td>80.7</td>
<td>82.4</td>
<td>85.0</td>
<td>82.7</td>
<td>83.3</td>
<td>85.3</td>
<td>99.4</td>
</tr>
<tr>
<td>4. Amount of tax payment by tax audit</td>
<td></td>
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</tr>
<tr>
<td>Taxed</td>
<td>6.4</td>
<td>9.8</td>
<td>15.3</td>
<td>9.3</td>
<td>11.2</td>
<td>13.8</td>
<td>17.4</td>
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<td>13.7</td>
<td>39.1</td>
<td>36.8</td>
<td>32.9</td>
</tr>
<tr>
<td>Collected</td>
<td>4.3</td>
<td>3.9</td>
<td>12.3</td>
<td>5.4</td>
<td>6.9</td>
<td>8.8</td>
<td>10.4</td>
<td>25.8</td>
<td>9.6</td>
<td>26.6</td>
<td>23.4</td>
<td>19.6</td>
</tr>
<tr>
<td>Balance</td>
<td>2</td>
<td>5.8</td>
<td>3.8</td>
<td>4.3</td>
<td>5</td>
<td>6.9</td>
<td>11.2</td>
<td>4.2</td>
<td>12.5</td>
<td>13.4</td>
<td>13.3</td>
<td></td>
</tr>
<tr>
<td>Rate of paid taxes %</td>
<td>67.2</td>
<td>39.8</td>
<td>80.4</td>
<td>58.1</td>
<td>61.6</td>
<td>63.8</td>
<td>59.8</td>
<td>69.5</td>
<td>69.5</td>
<td>68.0</td>
<td>63.5</td>
<td>59.5</td>
</tr>
<tr>
<td>5. Total</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Taxed</td>
<td>187.1</td>
<td>243.9</td>
<td>221.8</td>
<td>216.0</td>
<td>387.9</td>
<td>488.7</td>
<td>921.4</td>
<td>1,389.4</td>
<td>1,507.4</td>
<td>1,403.0</td>
<td>2,078.7</td>
<td>2,123.6</td>
</tr>
<tr>
<td>Collected</td>
<td>139.0</td>
<td>205.4</td>
<td>176.3</td>
<td>157.6</td>
<td>298.4</td>
<td>382.5</td>
<td>750.1</td>
<td>1,172.0</td>
<td>1,214.6</td>
<td>1,144.7</td>
<td>1,707.4</td>
<td>1,968.9</td>
</tr>
<tr>
<td>Rate of paid taxes %</td>
<td>74.3</td>
<td>84.2</td>
<td>79.5</td>
<td>73.0</td>
<td>76.9</td>
<td>78.3</td>
<td>81.4</td>
<td>84.4</td>
<td>80.6</td>
<td>79.4</td>
<td>82.1</td>
<td>94.2</td>
</tr>
</tbody>
</table>

Source: Mongolian Tax Authority

14 Rate of the tax amount paid by the legal deadline for payment against the total amount of taxes for which the collection was decided in the fiscal year

15 Taxpayer compliance refers to correct filing made by taxpayers at their own initiative.
5. Independent development of the cooperation – self-help efforts by the MTA after the cooperation

After the completion of a series of cooperation initiatives, MTA expanded the transferred knowledge and techniques to further improve its tax administration. As a result, the above described effects on macro economy were also confirmed. Below are the techniques that were transferred with cooperation by Japan and have maintained especially lasting effects through MTA’s self-help efforts.

(1) Tax collection

1) Coordination with other organizations concerning the third-party information system (partner organizations and information)

There were seven partner organizations at the end of Phase 5 in 2008, but the number increased to 20 by March 2012. The increase expanded the information that inspectors can check when receiving returns or carrying out inspection, which contributed to the improvement of effects and efficiency of tax collection.

Table 3 Coordination with other organizations concerning the third-party information

<table>
<thead>
<tr>
<th>No.</th>
<th>Content of Information</th>
<th>Information Provider</th>
<th>No.</th>
<th>Content of Information</th>
<th>Information Provider</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Information on duties</td>
<td>Customs Authorities</td>
<td>11</td>
<td>Study on visa duration of Foreign residents in Mongolia</td>
<td>Mongolian Immigration Agency</td>
</tr>
<tr>
<td>2</td>
<td>Information on bidding including successful bidding</td>
<td>Ministry of Finance</td>
<td>12</td>
<td>All kind of economical study</td>
<td>State Development and Innovation Agency</td>
</tr>
<tr>
<td>3</td>
<td>Ownership of immovable properties</td>
<td>Administration Office of State Registry of Titles</td>
<td>13</td>
<td>Loan and aid information provided by Ministry of Agriculture</td>
<td>Small and medium enterprises Department</td>
</tr>
<tr>
<td>4</td>
<td>Information on mineral resource license possessors / license validity, extension of possession, transferring the possession right</td>
<td>Mineral Resources Department</td>
<td>14</td>
<td>Study on foreign invested entities</td>
<td>Foreign Investment Agency</td>
</tr>
<tr>
<td>5</td>
<td>Information on social insurance</td>
<td>State Social Insurance General Office</td>
<td>15</td>
<td>Shareholders information</td>
<td>State property department</td>
</tr>
<tr>
<td>6</td>
<td>Liquor production and trade</td>
<td>Ministry of Food, Agriculture and Light Industry</td>
<td>16</td>
<td>Information on entity</td>
<td>State Registration Authority /Corporate registration department/</td>
</tr>
<tr>
<td>7</td>
<td>Government procurement</td>
<td>Ministry of Finance</td>
<td>17</td>
<td>Information on personal</td>
<td>State Registration Authority /Personal registration department/</td>
</tr>
<tr>
<td>8</td>
<td>Information on all kind of vehicles</td>
<td>Transportation authority</td>
<td>18</td>
<td>Locational map of Buildings, roads and streets</td>
<td>Land administration, construction and geodesy agency</td>
</tr>
<tr>
<td>9</td>
<td>Information on schools and kindergartens in Ulaanbaatar</td>
<td>Education department of Municipality</td>
<td>19</td>
<td>Introduction of E service</td>
<td>Golomt bank</td>
</tr>
<tr>
<td>10</td>
<td>Information on Monopoly manufacturer in the market</td>
<td>Fair competition and consumer protection agency</td>
<td>20</td>
<td>Codification of economical, goods and service sector</td>
<td>National Statistical Office</td>
</tr>
</tbody>
</table>

Source: Mongolian Tax Authority

Note: No.1 to No.7 organizations are partners from Phase 4 to Phase 5; No.8 to No.20 were added after the completion of the project.
2) Data volume of the third-party information system and its utilization by staff

With the increase of partners, the number of information items increased about eleven-fold from 274,687 in 2007 to 3,124,710 in 2011. This increased the opportunities for MTA staff to use the third-party information system; use of VAT invoice and the third-party information increased about 18 fold and 5 fold respectively from 2007 to 2011 (See Table 1.)

(2) Taxpayer services

The taxpayer service contents have been enriched especially since Phase 4. In addition, MAT has been working on further improvement after the cooperation with the following effects:

1) Number of requests for consultation from taxpayers at Call Center

The number of requests for consultation to the call center increased from 4,205 in 2008 to 46,235 in 2011. It is believed that MTA’s continuing efforts including expansion of the call center staff and public relations raised taxpayers’ interest.

Table 4: Number of requests for consultation to the call center

<table>
<thead>
<tr>
<th></th>
<th>2008</th>
<th>2009</th>
<th>2010</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total number of requests</td>
<td>4,205</td>
<td>8,805</td>
<td>28,431</td>
<td>46,235</td>
</tr>
<tr>
<td>Telephone consultation</td>
<td>4,184</td>
<td>6,531</td>
<td>21,256</td>
<td>30,333</td>
</tr>
<tr>
<td>Consultation with automatic answering system</td>
<td>0</td>
<td>2,204</td>
<td>7,067</td>
<td>15,580</td>
</tr>
<tr>
<td>Visiting consultation</td>
<td>21</td>
<td>70</td>
<td>84</td>
<td>245</td>
</tr>
<tr>
<td>Answers in official document</td>
<td>24</td>
<td>77</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: Mongolian Tax Authority

2) Number of accesses to the MTA Website

The monthly average number of accesses that was 4,586 in 2007 increased about 14 fold to 66,583 by 2011. The great increase may be attributable to the rise of the Internet diffusion rate in addition to the improved user friendliness of the Website.

MTA plans to introduce a filing procedure using electronic signature in 2013. It is

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16 When participating in a training program held in Japan, the MTA Director-General at the time visited a Japanese call center and then wanted to introduce a call center to Mongolia and thus asked Japan for support with equipment although it was near the end of Phase 5. As a result, a call center (telephone consultation center) was set up in a room of MTA in 2008. It is of a great significance that MTA expanded its operation after the cooperation because the project could provide little support due to the circumstances.

17 Conventionally, taxpayers who have downloaded a form from the website and completed the form still have to visit a tax office for filing. Introduction of electronic signature will enable online filing. A law
expected that further improvement of the convenience for taxpayers will increase accesses to the website.

3) Implementing tax education at schools

Because tax education at schools is effective for achieving public understanding of the importance of taxes from an early life stage, its introduction was recommended as early as Phase 1. Japan continued to include the proposal for the introduction in the recommendations of subsequent phases, but coordination with the education sector required time. In 2009 after the completion of Phase 5, MTA and The Ministry of Education, Culture, and Science formed a working group on tax education and formulated the “Program for future taxpayers” using as a reference Japan’s tax education system, teaching materials and manuals. Though it was after the completion of the cooperation program, teaching materials for elementary, lower and higher secondary high school students, posters and teacher manuals were created, training for social science teachers was implemented and a nationally broadcast television program was produced using the contents of the teaching materials with support of a follow-up program by JICA office in Mongolia\textsuperscript{18}. Tax education was introduced in social science class of 7\textsuperscript{th}, 8\textsuperscript{th}, 9\textsuperscript{th} and 11\textsuperscript{th} graders in September 2010.

4) System of contract tax accountant\textsuperscript{19}

The contract tax accountant system had also been recommended since Phase 1 but made little progress because it was difficult to conduct coordination with the accountant service and coordinate with and obtain approval of other ministries and agencies. Since 2007, when a bill related to the contract tax accountant system was first submitted, MTA repeatedly consulted with the Ministry of Finance and Ministry of Justice and other government departments. The second bill was submitted in December 2011 and is waiting for Diet deliberation as of June 2012. Though it is taking time to create a legal environment, there are already 300 tax accountants and 9

\textsuperscript{18} The follow-up program funded creation of the teaching materials, posters and manuals and the production of the television program.

\textsuperscript{19} Contract tax accountants are tax specialists who conduct tax agency functions, create tax documents and provide tax consultation services in an independent and fair position. The “Seminar about introduction of the contract tax accountant system” was held in December 2004. Soon after that, the Contract Tax Accountants’ Association of Mongolia was established to meet the wishes of the Ministry of Finance, Mongolian Tax Authority, supervisory authorities, business institutions and others. Activities are actually conducted by tax accountants certified by MTA and the association but it was necessary to develop an independent law concerning contract tax accountants and establish the system.
tax accountant corporations. We can say that tax accountants have been practically recognized and the system has a high likelihood of being established.

### 6. Pointers and lessons from the 10-year cooperation

1. Importance of program formation for cooperation efforts aimed at establishing institutions

   For donors to carry out effective CD support for a developing country it is necessary to cover areas ranging from capacity development and enhancement to establishment of institutions - though with varying emphasis - and it is of great importance to support the process of building and establishing institutions. However, establishment of an institution involves a great deal of time and many uncertain factors. Enhancement of tax collection and management capacity takes time also in Mongolia, but the cooperation in Mongolia for tax administration enabled the establishment of the tax administration system and operating process through long-term support for 10 years. In 1998 when the first study started, it was less common for a medium- to long-term program to address a specific issue (field) of a country, but the cooperation in Mongolia for tax administration eventually developed into a medium- to long-term program. If it had been planned as a medium- to long-term program (or we could have taken the perspective of medium- to long-term efforts at the stage of Phase 1 or 2,) we could have chosen tasks and contents more efficiently (for example, if we had started full-scale efforts on the contract tax accountant system and tax education a little earlier, effects would have appeared earlier.)

   The cooperation in Mongolia for tax administration shows that it is difficult to complete a process up to the establishment of an institution within a single project and it takes a considerable amount of time. In order to effectively establish institutions for a certain issue, it may be necessary to work flexibly based on a strategically planned medium- to long-term program from the initial phase of its formation.

2. Requirements for establishment of institutions

   For a medium- to long-term cooperation program aimed at legal reform and institution building as is the case of this program, it is important that there is strong ownership on the side of the counterpart. At the time Mongolia was receiving support from IMF and the World Bank for the move to a market economy. Against this background, it seems that the

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20 Towards Capacity Development (CD) of Developing Countries Based on their Ownership (March 2006, JICA)
enhancement of tax administration was emphasized at a high level. In this environment, elements essential for the success of the cooperation included: recommendations that increased the country’s awareness by showing the entire scope of the problem to the country where institutions for overall tax collection and administration were underdeveloped; and; steady improvement through cooperation in the area with a high degree of urgency enabled people on the counterpart to see the improvement effect, which further strengthened the ownership of the counterpart. We can also assume that such achievements will generate incentives and confidence in the field.

(3) Importance of selection and concentration

Through the 10-year cooperation in Mongolia for tax administration, institutions were established with accurate “selection and concentration” on issues having a high degree of urgency and that are easy to implement in consideration of the state of the counterpart country (not only social and economic situations but also the capacity of tax officers and taxpayers.)

As shown at the beginning, the cooperation can be divided into the three stages of “Institutional design” → “Response to individual issues” → “Compilation of the efforts.”

In the early stage, we surveyed the overall socio-economic and tax collection situations in Mongolia and established a base for tax collection enhancement through “institutional design” including law reform and system development in the Mongolian tax collection field where almost nothing existed. Director-General of MTA from 2000 to 2008 mentioned as the foremost impact of the series of cooperation efforts “the support to institution building: that is tax law formulation, in a period lacking adequate tax laws.”

Later, at the stage when the base was built to a certain degree, technical transfer was carried out with focus on individual issues surrounding tax collection at the time in the light of their urgency and importance (“constructing an information management system” in Phase 3, “building a human resource development system” in Phase 4, for example.)

Phase 5 became the final stage toward steady establishment of the results of the past efforts on issues covered. High level achievements were made in each of three components; human resource development, tax collection and taxpayer service.

(4) Starting point of technical cooperation: “human development”

MTA staff members involved in the cooperation from its initial stage said: “in addition to the proposal from the Japanese side we expressed our preference and opinions about things that were untenable in Mongolia. As a result, the program was implemented

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21 Interview of the former MTA Director-General (March 2012)
incorporating opinions from both sides though we had heated discussions at times. We could move in the direction we intended.” Japanese experts left comments such as: “I said tough things but we understood each other little by little and learned to dance to the same beat.” ; “even in a heated discussion I considered the other party’s feeling so that we can maintain our trusting relationship.” ; “we could make substantive technical transfer since around Phase 2 and the state became stable around Phase 3” and ; “in Phase 5, the counterpart could handle creation of teaching material for training and collection of cases for inspection alone without Japanese experts’ presence in Mongolia.”

It takes time not only for institution building but also for human development in Mongolia’s tax administration where many matters were newly introduced in the country’s transition. As indicated by these comments, however, the team work that is not imposed on the counterpart country but rather respects its ownership as typically seen in later Phases\(^22\) is the starting point of JICA’s “human development” and guarantees sustainability of the projects.

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\(^22\) Japanese experts stayed on-site relatively long until Phase 2 but, at MTA’s request for shorter-term dispatch in Phase 3 (stays longer than one month disrupted MTA’s primary work) repeated short stays from two weeks to one month since around Phase 3. Japanese experts gave their counterpart assignments (homework) at every dispatch, checked the progress and questions from the counterpart through local staff when they were in Japan and checked the results at their next dispatch. The method enabled the counterpart to engage in the project activities while ensuring coordination with their primary work, which also contributed to enhancement of the ownership on the side of the counterpart and the independent development of tax administration by MTA after the completion of the cooperation.
### Attached Table 1: List of issues surrounding Mongolian tax administration identified in the early stage of cooperation

<table>
<thead>
<tr>
<th>Issue</th>
<th>Problem area</th>
<th>Recommendations of the Study</th>
<th>Approach to the issue and subsequent major improvements</th>
</tr>
</thead>
</table>
| Tax collection | ■ **Insufficient taxpayer registration**  
✓ Taxpayers’ whereabouts are unknown  
✓ Taxpayers’ failure to register | **[Recommendations at Phase 1]**  
- If the existing state registration offices are to be used, ensure accurate taxpayer registration and develop a quick contact system for responsible persons.  
- If a new taxpayer registration system is to be built, abolish the existing state registration offices and build a taxpayer registration system by taxation item at the competent tax offices.  
- Sanctions against persons who escape registration  
- Introduce a third-party reporting system  
- Provide privilege of voluntary registration | **[Addressed during Phase 1]**  
- Improving the incentive system for informers in order to collect tax evader information  
**[Addressed during Phase 3]**  
- Promoting a taxpayer information management system through a third-party information system  
**[Addressed on a continuing basis in subsequent Phases]**  
- Strengthening public relation measures (enlightening the awareness of taxpayers). Their contents were enhanced especially during Phases 4 and 5. |
<table>
<thead>
<tr>
<th>Inefficient tax collection</th>
</tr>
</thead>
<tbody>
<tr>
<td>Constraints of the legislative system prevent appropriate tax collection.</td>
</tr>
<tr>
<td>The tax collection division is in charge of all taxpayer affairs excluding inspection.</td>
</tr>
</tbody>
</table>

**Recommendations at Phase 1**
- Revise the following laws concerning taxation, supervising of tax payment and tax collection:
  ① Article 24 of the General Taxation Law (Seizure of property always requires consent of the taxpayer)
  ② Article 36 of the General Taxation Law (Taxpayers have right to apply to court against any decision of the tax authority)
  ③ Article 24, para. 1, item 10 of the General Taxation Law (Tax authority files suits against damage, etc. with the court for the following issues)

- If the existing tax collection division is to be continued, strengthen taxation on business income and added value and secure a large amount of revenue from other tax items.
- In order to create an ideal tax collection division, organize a division specialized in tax collection.

- The law was revised in 2009 concerning property seizure in Article 24 to grant “self-enforcement” with the provision to enable tax collection officers to seize and conduct public sales of the property of taxpayers who failed to pay tax based on their judgment without a judicial decision.

- In order to improve the efficiency of the organization in response to the recommendations on the left, a drastic functional and organizational reform of the tax collection division was carried out in February 2000.

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23 Based on an interview with MTA and materials provided by JICA
| ✓ Lack of legal stability and predictability due to the simplicity of the existing tax laws |
| ✓ Treatment of foreign companies from countries that have not concluded a tax treaty with Mongolia may not meet international standards depending on the interpretation of the simple domestic laws of Mongolia. |

It is necessary to clearly define the following not only in a tax treaty but also in domestic laws:
- Criteria for determination of residents and nonresidents
- Criteria for determination of resident corporations and nonresident corporations
- Scope of permanent establishments
- Treatment of special affiliated businesses
- Scope of taxation on dividends, interests, rental fees, capital gains and domestic source income

- In Phase 2 efforts were made to clarify domestic laws so as to guarantee legal stability and predictability. As a result, the items at left were defined and the old income tax act that consisted of 12 articles was expanded to 8 chapters and 30 articles; the corporate tax act was expanded from 8 articles to 8 chapters and 22 articles; the Value-added Tax Act was expanded from 14 articles to 9 chapters and 18 articles (enacted in the Diet session in 2001.)
<table>
<thead>
<tr>
<th>Inspection</th>
<th>Inefficient tax inspection</th>
<th>Recommendations at Phase 1</th>
<th>Addressed during Phase 1 later</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Assigning inspection quota to all tax items makes the division inefficient for inspection of adequateness of returns filed by taxpayers.</td>
<td>(Assuming the existing inspection division) 1) Organization of taxation by tax item 2) Assign inspectors to inspection of the tax items in which they are specialized 3) Establish inspection methods by tax item 4) Implement seminars for inspectors  · Improve the method to select cases to be inspected  · If inspection units are to be set up under an ideal taxation division, reorganize the existing inspection division into inspection units under divisions in charge of taxation of different tax items.  · Introduce “a system of legal receipts issued by MTA,” which is expected to collect more tax from cash transaction businesses that are havens for tax evasion.</td>
<td>Toward efficiency improvement of the inspection division, MTA formally adopted innovative methods, new guides and manuals for detection of hidden properties, taxation and collection of tax on them in Phase 1.  · In terms of organization, personnel assignment and organizational reform were implemented assuming the continuation of the existing inspection division.  · Recommendations had been made on selection of inspection subjects in subsequent Phases continuously. In Phase 5, introduction of qualitative segregated management and segregated management based on sales class was recommended. In 2008, a risk management method to manage taxpayers by dividing them into classes was formally introduced.</td>
<td></td>
</tr>
</tbody>
</table>
| Inspection | **Inefficient tax inspection**  
✓ Assigning inspection quota to all tax items makes the division inefficient for inspection of adequateness of returns filed by taxpayers. | **Recommendations at Phase 2**  
The following measures were recommended concerning corporate taxation:  
- Improve the rough selection of corporations to be inspected  
- Improve preparatory inspections  
- Establish tax history table  
- Diversify tax inspection methods  
- Hold good practice study meetings  
- Establish and use effectively a tax information data system  
- Upskilling of inspectors | • A risk management department was set up in 2012. The department efficiently selects inspection subjects based on criteria not open to public.  
• A system of official receipts for economic transactions above a certain amount was enshrined into law by the order of the Minister of Finance and the Minister of Agriculture and Forestry in March 2003 and a government order in January 2001. This enabled direct grasp of the validity of filed contents and failure to file a return, and direct, low-cost and easy taxation on and tax collection from the shadow economy and cash transactions in a short period of time.  
• Tax inspection method: tax inspection was mostly carried out based on the books in the past. However, expansion of sources of third-party information, increase in the amount of information and the inspection manual’s requirement to use third-party information in preparatory investigation in the subsequent phases improved preparatory investigations; the focus of inspection shifted from the books to investigation of the other side and other methods. Inspection methods were diversified incorporating on-site inspections, hearing investigations, etc.  
• Establishment and effective use of the tax information data system: An information management system was constructed in a focused manner as development of “a taxpayer information management system” in **Phase 3** and supported continuously also after the phase. As a result, partnership with other organizations has developed with partners increasing to 20 organizations by 2012.  

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24 Tax office asks questions on the phone to business partners, etc. of the taxpayer subject to tax inspection, or visits them to look over the books.
<table>
<thead>
<tr>
<th>Human resource development</th>
<th>Absence of a systematic and effective curriculum to foster and train excellent tax collection officers</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>✓ For example, the period of the first level training is too short and its content is insufficient.</td>
</tr>
<tr>
<td></td>
<td>✓ Intermediate and advanced training courses are planned but not implemented. In addition, they are not well coordinated due to lack of systematization.</td>
</tr>
</tbody>
</table>

**Recommendations at Phase 1**

- Implement planned “long-term training”
  - First level training: for newly employed regular staff before assignment to a tax office to learn basic matters including the knowledge and skills necessary for a tax officer
  - Intermediate level training: examine graduates of the first level training course or equivalent course who have 3 years of operational experience and select participants who will be candidates for middle management executive position by considering their performance during the first level training and service record.
  - Advanced training: select excellent graduates of the intermediate training who can be key members of MTA in the future by considering their performance during the intermediate level training and service record, and have them study theories and issues of tax administration.

- For human resource development, technical transfer has been carried out through teamwork during the subsequent phases.
- For human resource development of MTA, a systematic institutionalization was carried out including the formation of “a plan to construct a tax administration education system (a long-term vision and a short-term action program),” revision of a tax officer education curriculum and creation of basic education materials in **Phase 4**
### Tax system

<table>
<thead>
<tr>
<th>Absence of a framework to guarantee self-assessment system</th>
</tr>
</thead>
<tbody>
<tr>
<td>✓ Insufficient basis to maintain a sense of fairness among taxpayers</td>
</tr>
<tr>
<td>✓ Ambiguous penalties</td>
</tr>
<tr>
<td>✓ Undeveloped information returns</td>
</tr>
</tbody>
</table>

#### Recommendations at Phase 1
- In addition to the current tax education, taxpayer services and public relations on tax, review the tax rate structure, add personal deductions and establish measures to encourage self reporting (blue return, revised return, etc.);
- Define 1) additional tax on failure to file a return, 2) additional tax on under-reporting, 3) heavy additional tax and 4) additional tax on failure to pay tax in the tax laws.
- Legally provide and oblige payers to submit “reports of payment” that enable the authority to automatically collect information.

- “Taxpayer Week” has been held in the second week of May since 2000 (before, interviews with taxpayers, answers to taxpayers’ questions and consultation were provided on “Taxpayers’ Day.”
- In 2004, rules for selecting good taxpayers were approved by the No. 183 Order, and good taxpayers were selected in three categories.
- Public relation booklets were created and TV commercials for PR targeting taxpayers were produced in Phase 4. In Phase 5 a variety of media including newspapers, radio, television and distributions were used covering explanation and advice concerning enforcement of tax laws and revision of related laws, points to consider about tax payment and introduction of the tax office services. In addition, “tax consultation” and “frequently asked questions” sessions started on the Website.

### Tax payment environment

<table>
<thead>
<tr>
<th>Insufficient awareness of tax accounting system among taxpayer (citizens and businesses)</th>
</tr>
</thead>
</table>

#### Recommendations at Phases 1 and 2
- Establish a bookkeeping/accounting system
- Introduce a tax accountant system

- A beginner level bookkeeping textbook was created as deliverable of Phase 2.
- The Contract Tax Accountants’ Association of Mongolia was established with support by the project in Phase 5 (2008.) Since 2007 when a bill related to the contract tax accountant system was first submitted, MTA repeatedly consulted with the Ministry of Finance and the Ministry of Justice and other government departments. The second bill was submitted in December 2011 and is waiting for Diet deliberation as of June 2012. There are 300 tax accountants and 9 tax accountant corporations. Tax accountants have been recognized in effect and the system has a high likelihood of being established.

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25 1) additional tax on failure to file a return: tax imposed when a return has been filed voluntarily after the due date but before tax examination; 2) additional tax on under-reporting: tax imposed when a revised return has been voluntarily filed before tax examination; 3) heavy additional tax: when there is a fact of disguising/hiding; 4) additional tax on failure to pay tax: tax imposed when the tax amount to be paid by withholding has not been paid by its legal due date without a reasonable excuse.