RESEARCH REPORT

GENDER-RESPONSIVE TAXATION IMPACT ASSESSMENT IN MONGOLIA

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GLOSSARY

BDPfA	Beijing Declaration and Platform for Action
CEDAW	Convention on the Elimination of All Forms of Discrimination against Women
CIT	Corporate income tax
CITL	Corporate income tax law
GTA	General tax authority
GRT	Gender-responsive taxation
GTL	General tax law
IMF	International Monetary Fund
IPT	Immovable property tax
IPTL	Immovable property tax law
MOF	Ministry of Finance
PIT	Personal income tax
PITL	Personal income tax law
PWD	person with disabilities
SME	Small and Medium Enterprise
SWP	Social Welfare Program
SDG	Sustainable Development Goal
UNDP	United Nations Development Programme
VAT	Value-added tax

EXECUTIVE SUMMARY

The Gender-Responsive Taxation Impact Assessment in Mongolia conducted under the UNDP's EQUANOMICS initiative presents a thorough analysis of Mongolia's tax system through a gender lens. This study evaluates the gender-specific impacts of various tax policies, including personal income tax, corporate income tax, value-added tax, and property taxes. The aim is to provide insights and policy recommendations to promote gender equality by creating a more equitable tax system.

The research methodology involved both quantitative and qualitative approaches. Gender-disaggregated tax data was collected and analyzed to understand the impact of existing tax policies on different demographic groups, including women and men.

A thorough review of relevant literature, policy documents, and international good practices was conducted to frame the analysis within a broader context of gender-responsive taxation. Engaging with key stakeholders, including the General Tax Authority, Ministry of Finance, Ministry of Labour and Social Protection, and the National Committee on Gender, provided additional insights and validation of findings. Statistical and econometric techniques were employed to analyze the data and identify gender disparities in tax burdens and benefits.

Key findings indicate significant gender disparities in employment income, with women often bearing disporportionate tax burden. This is especially prevelant among married women in Mongolia. Additionally, women consistently spend more on essential goods subject to VAT, exacerbating the regressive nature of this tax and disproportionately impacting women.

On the other hand, women own nearly an equal number of properties as men but tend to own higher-value properties, suggesting economic empowerment but also a higher property tax burden.

Based on these findings, the report recommends the following policy changes:

- **Personal Income Tax:** Implementing policies that support families, such as child tax credits and deductions for caregiving responsibilities.
- **Property Tax:** Ensuring fair valuation and considering progressive taxation for high-net-worth individuals.
- **Corporate Income Tax:** Analyzing existing incentives for gender bias and exploring options to support women-owned businesses.
- **Value-Added Tax:** Mitigating the regressive impact on low-income households, primarily affecting women, by considering exemptions or alternative tax structures.

Furthermore, improving data collection and analysis, coupled with enhanced tax administration and public engagement, are crucial for effective implementation.

By implementing the recommended policy changes, Mongolia can ensure a fairer tax system that supports gender equality and enhances the economic contributions of both men and women.

I. INTRODUCTION

Taxation is a vital tool for achieving gender equality espoused in Sustainable Development Goal (SDG) 5, Convention on the Elimination of All Forms of Discrimination against Women (CEDAW), Beijing Declaration and Platform for Action (BDPfA), regional normative frameworks and national constitutions and laws. Yet, gender-blind tax policies and administration procedures, lack of gender-disaggregated data, underrepresentation of women in tax policymaking, and tax evasion significantly impede progress.

To address these issues, the United Nations Development Programme (UNDP) supports governments in establishing gender-responsive tax systems through research, gender equality impact assessments, policy, and technical advisory, and strengthening gender perspectives in decision-making. These interventions aim to create progressive and redistributive tax systems and enhance institutional capacity for tax and gender equality.

Given this background, UNDP Sustainable Finance Hub and the Gender Team launched the joint EQUANOMICS initiative which has three main pillars; 1. Tax reforms towards gender equality, 2. Gender Equality Seal for Ministries of Finance and Tax Authorities and 3. Aligning budgets for gender equality.

Mongolia is one of the focus countries of EQUANOMICS under which authorities are committed to better align the tax system with SDG 5, notably by conducting Gender-Responsive Taxation Impact Assessment.

Mongolia's tax policy aligns closely with the country's broader development objectives, including “Vision 2050,” the long-term strategic vision, and the Mongolian Regional Development Concept, to create a more inclusive tax system that promotes social equity and sustainable development. The newly formed coalition government reinforces this alignment by introducing key tax policies designed to foster national development. These policies aim to support enterprises, promote regional development, and enhance the labor market, ultimately contributing to a more equitable tax system that aligns with Mongolia's development goals.

In terms of gender equality, Mongolia has committed to international conventions and has integrated gender equality goals into national policies. The "Intersectoral Startegic Plan on Gender Equality 2022-2031" and its subsequent iterations emphasize the importance of gender mainstreaming in all sectors, including taxation. The government's declared objectives around taxation align well with making the system more gender-responsive, aiming to reduce gender disparities and enhance women's economic participation.

This research aims to generate assessment, insights, and recommendations for gender-responsive tax reforms in Mongolia. The primary focus is on personal income tax (PIT), supplemented by gender-based analyses of immovable property tax (IPT), corporate income tax (CIT), and value-added tax (VAT). The goal is to deepen the understanding of how Mongolia's tax system impacts gender equality and provide concrete, evidence-based guidance for policymakers.

The reminder of this research report is structured as follows:

- Section 2 covers relevant literature, policy documents and reports on taxation and gender equality;
- Section 3 describes Mongolian tax system, labor market and social welfare policy;
- Section 4 provides tax policy analysis highlighting the gender related aspects for PIT, CIT, VAT and IPT;
- Section 5 presents and analyzes the results;
- Section 6 suggests policy recommendations and tax reforms.

II. LITERATURE REVIEW

Gender-responsive taxation (GRT) is essential for promoting gender equality, economic empowerment, and social justice. Traditional tax systems often inadvertently favor men, contributing to gender disparities in income, workforce participation, and economic opportunities. GRT addresses these biases by encouraging female workforce participation, supporting female entrepreneurs, and funding public services that benefit women, such as childcare. This approach aligns with international commitments like the United Nations' Sustainable Development Goals and human rights treaties (Stotsky, 2016; Lahey, 2018; IMF, 2018).

GRT draws from gender analysis and tax justice principles, emphasizing the need for equitable and inclusive tax systems (Coelho et al., 2022). These principles identify and rectify explicit and implicit gender biases in tax codes, which can exacerbate gender inequalities in income distribution, labor market participation, and access to public services (Elson, 2006). By integrating these principles, GRT aims to create a fairer tax system that supports women's economic contributions and promotes gender equality by ensuring that tax systems do not unfairly burden women, who often earn less and have different economic behaviors and responsibilities (Stotsky, 2016).

Several challenges arise in implementing GRT across various types of taxes. In income tax systems, joint taxation and income splitting can impose higher marginal tax rates on secondary earners, often women, discouraging their workforce participation and perpetuating income disparities. Additionally, tax deductions and credits tend to benefit higher-income households where men are typically the primary earners, resulting in inequitable tax benefit distribution (Stotsky, 2016). Tax deductions and credits can thus be explored on the basis of cost benefit analysis and the distributional impact on either gender.

Consumption taxes, such as VAT and sales taxes, are considered regressive and disproportionately affect women, who are more likely to be in lower-income brackets and spend a higher portion of their income on household necessities. Women often shoulder primary household shopping responsibilities, including groceries and children's clothing, and the financial burden of these expenses is heightened by consumption taxes (Elson, 2006). Additionally, taxes on healthcare-related products and services disproportionately affect women, who generally have higher healthcare needs (Barnett & Grown, 2004).

Corporate tax policies often favor male-dominated industries, limiting support for female entrepreneurs. Property taxes reflect ownership disparities, with women benefiting less due to historical and systemic biases in property ownership and inheritance laws. Social security and payroll taxes do not adequately support part-time workers, predominantly women, impacting their long-term financial security. Inadequate tax policies for maternity and parental leave further exacerbate career progression and earnings gaps (Elson, 2006; Grown & Valodia, 2010; IMF, 2018).

Given these challenges, several policy recommendations have been proposed. In CIT, introducing tax incentives for businesses owned by women and those operating in female-dominated industries can help mitigate bias. However, these measures could create market distortions, potential resentment among non-qualifying businesses, and challenges in defining and verifying eligibility. Monitoring and enforcing equitable access to tax credits can also be complex and resource-intensive, potentially leading to lobbying against such measures by larger firms. (IMF, 2018; OECD, 2022).

In recent times, significant number of countries are exempting or zero-rating essential goods such as menstrual products, basic groceries, and children's clothing to alleviate the financial burden on women. Yet, such measures can lead to revenue losses and complicate tax administration, and ensuring that retailers pass on tax savings to consumers can be challenging. Targeted subsidies for essential goods to low-income households might be more effective but require robust data collection and monitoring, which can strain administrative resources and pose risks of fraud and misuse (Coelho et al., 2022).

For property taxes, reforming laws to ensure gender-equitable property ownership and providing property tax relief for female-headed households and women property owners can address disparities. However, legal reforms might face significant cultural and societal resistance, and enforcement could be challenging. Property tax relief could also reduce local government revenues, impacting the funding of essential services, and there is a risk of fraud and misclassification (Gaddis et al. 2020; IMF, 2018).

As PIT directly impacts individual economic behavior and household income distribution, individualizing tax systems can avoid penalizing secondary earners, while increasing progressivity in tax rates with exemption threshold for basic incomes which can benefit lower-income groups, a majority of whom are women. Providing targeted tax credits for expenses such as childcare or eldercare can also help mitigate gender disparities and support female workforce participation (Coelho et al., 2022; OECD, 2022; Ferrant et al., 2014).

Recently, Mongolia has reintroduced a progressive PIT system to align with international standards and reduce income inequality (PITL Amendment, 2022). Ministry of Finance data shows that 67% of taxpayers in higher tax brackets are from the mining sector, such as engineers working at mine sites. While this indicates a successful alignment with progressive tax principles, it also highlights a significant issue: the heavy care burdens that prevent women from accessing paid employment.

Many of these high-income taxpayers face a substantial burden due to the lack of tax credits based on family status or the number of children, often forcing their partners, usually women, to stay home for childcare. To address this issue, it is crucial to consider how tax and broader fiscal policies can support unpaid care work. Introducing tax credits for childcare and elderly care, complemented by strong social protection floors and budget programs, could alleviate the burden on families and promote gender equality in both the workforce and tax system.

Mongolia addresses unpaid care work through over the social welfare programs (SWPs), including Child Money, benefits for newborn mothers, annual allowances for women with more than four children, and social benefits for caregivers of elders and people with disabilities. While these programs provide essential support, they may inadvertently discourage women's labor market participation by reinforcing traditional caregiving roles. Therefore, integrating GRT principles into the Mongolian PIT system could address these issues more effectively by providing targeted tax credits and deductions, alleviating the financial burden on families, encouraging women's workforce participation, and recognizing the economic value of unpaid care work.

Extensive research has explored the gendered impacts of PIT policies. For instance, the International Monetary Fund (IMF) highlights how joint taxation systems and tax exemptions can often disadvantage secondary earners, typically women, by imposing higher marginal tax rates on their incomes. This discourages women's labor market participation and perpetuates income inequality (Coelho et al., 2022). The OECD's stocktake of country approaches reveals that many countries have implemented specific tax reforms aimed at improving gender equity, particularly within the realm of personal income taxation (OECD, 2022).

The interaction between tax policies and labor supply decisions is crucial. High marginal tax rates on secondary earners can create disincentives for women to enter the labor force or increase their working hours. For instance, Coelho et al. (2022) highlight that household taxation can impose higher effective tax rates on secondary earners, reducing their incentive to work. Policies that lower the marginal tax rates for secondary earners or provide tax credits for childcare expenses can help mitigate these disincentives and promote greater gender equality in labor market participation.

Blundell et al. (2011) find that tax policies and social security systems play a crucial role in shaping the extensive margin (labor market participation) and the intensive margin (hours worked), with higher participation tax rates and effective marginal tax rates particularly discouraging women's labor market participation. The analysis shows that changes in participation rates, especially for women with children, explain a significant part of the total hours worked. Differences in labor supply responses among the US, UK, and France are linked to variations in tax policies, labor market regulations, and social security systems, highlighting the need for policies that support women's labor force participation and address gender disparities in the labor market.

Internationally, several countries have successfully integrated gender considerations into their PIT policies. Sweden's approach to individual taxation, parental leave and childcare support has significantly improved gender equality in labor market participation (European Commission, 2017). Similarly, Canada and the UK have introduced tax credits that directly benefit working mothers, promoting gender equality in the workforce. France's tax system includes significant incentives related to children and marital status, providing tax relief to families with more dependents and supporting working parents, particularly mothers (IBFD, 2020).

The introduction of tax incentives related to marital status and the number of children within the PIT regime is significant because it can directly address the financial burdens that disproportionately affect women, especially in households where they bear primary caregiving responsibilities (Coelho et al., 2022). Research indicates that tax policies can either mitigate or exacerbate these burdens. For example, Ferrant et al. (2014) show that women spend significantly more time on unpaid care work, limiting their participation in the labor market and confining them to lower-paying, often part-time or informal jobs. This double burden exacerbates gender wage gaps and economic disparities.

The Earned Income Tax Credit (EITC) has been a pivotal element in the U.S. tax-transfer system since its introduction in 1975, aimed at supporting low-income working families, particularly those with children. It has grown to become one of the largest and least controversial elements of the US welfare state, with 26.7 million recipients sharing $63 billion in total federal EITC expenditures in 2013. The EITC is designed to provide income support to low- to moderate-income working families, primarily those with children, and it is supplemented by the Child Tax Credit. Unlike traditional welfare programs that may disincentivize work, the EITC encourages labor force participation. Research consistently shows that the EITC increases employment among single mothers, although it has a smaller, negative effect on the employment of married women who may choose to stay home with their children (Nichols & Rothstein, 2016).

III. MONGOLIAN CONTEXT

3.1. TAX SYSTEM

Mongolia's tax system has undergone significant transformations since the fall of communism in 1990, evolving from a state-controlled model to a market-oriented system emphasizing transparency and efficiency. The system is structured into two tiers: national taxes and local taxes. National taxes include corporate income tax, value-added tax, customs tax, mining royalty tax, and excise tax. Local taxes encompass personal income tax, property tax, land fees, and other stamp taxes.

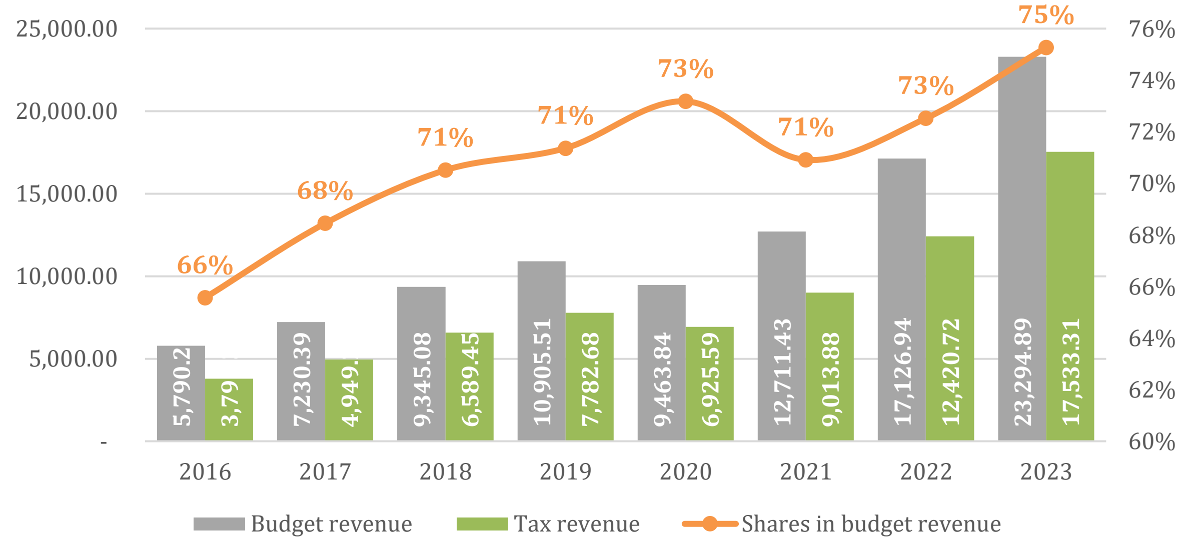
The primary legislation governing tax implementation is the General Law on Taxation, which, under Article 7, stipulates the 23 types of taxes applicable within the country. Most of these 23 taxes are further regulated by their own specific laws, ensuring a detailed and structured approach to tax administration.

Box 1. Explicit bias

A thorough examination of the tax code (all provisions of tax laws outlined in Article 7), reveals no explicit gender discrimination. This suggests that Mongolia employs a gender-neutral approach to tax laws on the surface level.

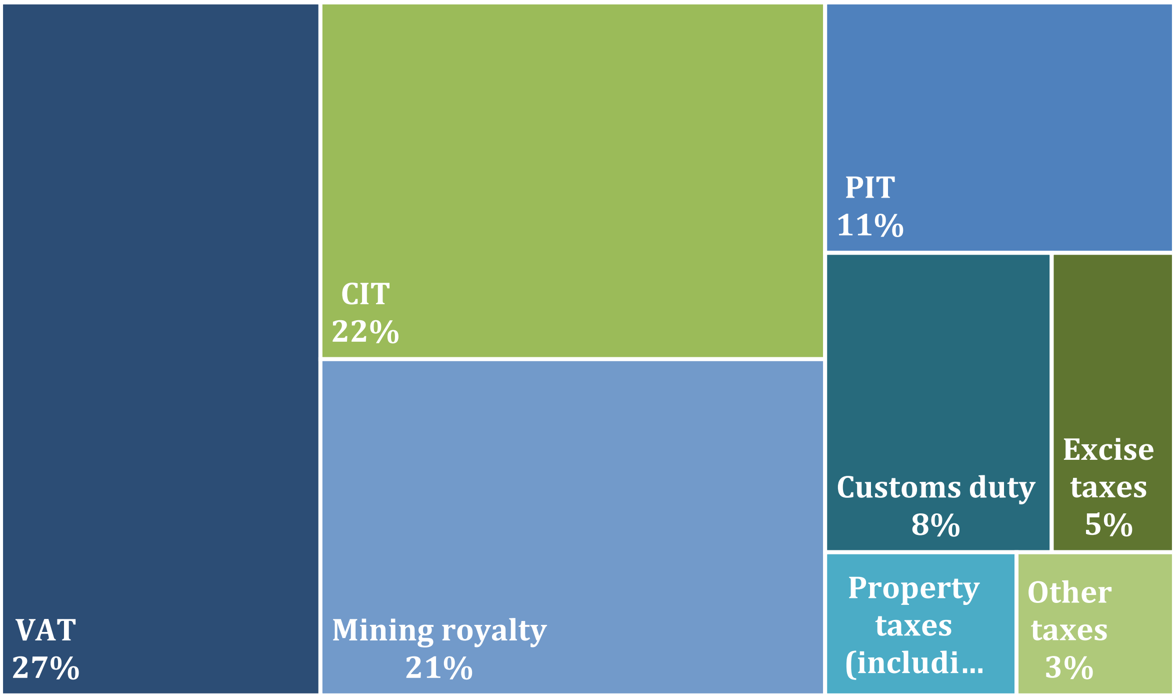
Mongolia's tax revenue is the most crucial source of funding for the government's budget, accounting for approximately 75% of the total government revenue in 2023. This prop ortion has grown steadily from 66% in 2016, reflecting the increasing reliance on tax revenue to fund various government initiatives (Figure 1). The allocation of tax revenue supports essential areas such as infrastructure development, education, healthcare, and social welfare programs (SWPs).

Figure 1. Budget revenue *(billion MNT)*



In 2023, the largest share of tax revenue came from value-added tax (VAT) at 27%, followed by corporate income tax (CIT) at 22%, mining royalties at 21%, and personal income tax (PIT) at 11%. Other notable sources include customs duty (8%), excise taxes (5%), property taxes including land fees (3%), and other taxes (3%). The primary contributor to Mongolia's tax revenue remains the mining sector, reflecting the country's rich natural resources. This diversified tax structure ensures a steady flow of funds to support the nation's development goals and public services.

Figure 2. Share of tax revenue by major taxes, 2023



Box 2. Budget and its impact on gender

Mongolia addresses social issues related to gender equality through SWPs and these programs represent a significant portion of budget expenditure. Therefore, it's crucial to find a balance between pursuing tax policy reforms that promote gender equality and their potential impact on government revenue.

Conducting a gender impact analysis of tax policies is vital. This analysis should consider potential reforms while carefully assessing their budgetary effects. By demonstrating a measured approach that minimizes short-term budget revenue impacts, the tax reforms are more likely to gain acceptance from both the Cabinet and Parliament.

3.1.1. Tax reforms

Mongolia has undertaken significant tax reforms over the past five years, beginning with the comprehensive tax reform of 2019. This reform focused on promoting domestic businesses, simplifying tax services, and reducing the compliance burden. By creating a favorable tax environment, especially for Small and Medium Enterprises (SMEs), and introducing measures such as reduced tax filing frequency and a simplified tax filing scheme for SMEs with less than 50 million MNT in gross taxable revenue, the reform indirectly supported gender equality. These measures lowered entry barriers and operational costs for female entrepreneurs, encouraging increased female entrepreneurship and financial independence. Additionally, the digitalization of tax services reduced administrative burdens, benefiting women who own small businesses by making compliance easier. While the primary goal was economic improvement, these structural changes have had positive unintended consequences for gender equality, demonstrating how inclusive fiscal policies can support broader societal goals.

In response to COVID-19, Mongolia introduced various tax measures to support businesses and individuals, providing much-needed relief during the pandemic. Following these, the government implemented progressive tax policies in 2023, including the introduction of progressive taxation on employment income in Personal Income Tax (PIT) and removal of the ceiling for simplified tax regimes for individuals, aimed at promoting fairness and equity. These progressive policies can help reduce gender income disparities by ensuring higher earners, who are often men, contribute more.

Since 2022, the Mongolian government has focused on decentralization by introducing various tax incentives, such as business income tax credits in remote region and VAT exemptions for nomadic herders. These measures aim to stimulate economic activity in rural areas and support female entrepreneurs and herders, who play a significant role in these communities. Collectively, these policies aim to create a more supportive and dynamic economic environment in Mongolia, fostering economic growth while promoting gender equality and empowering women economically.

While the recent tax reforms offer some positive, unintended consequences for gender equality, they weren't designed with this goal in mind. To truly reduce the gender gap, a more comprehensive approach is needed. This could involve addressing the root causes of the gender pay gap and exploring additional tax measures specifically aimed at promoting gender equity, aligning with the government's broader objectives. In this regard, the Ministry of Finance of Mongolia has partnered with the UNDP's Equanomics initiative to embark on gender-responsive tax reforms.

3.1.2. Tax policy formulation

The tax policy formulation process in Mongolia involves several key steps. These steps are guided by the principles and procedures established in the Legislation Law, the Budget Law, and the General Taxation Law. Here's a detailed explanation of the process:

Step 1. Initiation and Planning

Proposal Submission: The process begins with the submission of proposals for new tax policies or amendments to existing ones. According to the Constitution, the President, Members of the Parliament, and the Government exercise the right to initiate legislation. The scope and limits of this right are determined by law. Additionally, citizens and other organizations can forward their suggestions on drafts of the law to the initiators of laws.

Government Planning: The government incorporates these proposals into its legislative agenda. This planning is done in alignment with the government's fiscal policies and overall budgetary framework. The planned legislative agenda includes tax policy priorities for the term.

Step 2. Preliminary Research

Needs and Demands Analysis: Comprehensive research is conducted to identify the necessity for the proposed tax policy. This involves collecting data on the current tax system, economic conditions, and potential areas for improvement. The goal is to understand the demand for the new policy and how it fits into the existing framework.

Application of Methodologies: Standardized research methodologies are applied to ensure the analysis is thorough and accurate. This includes statistical analysis, economic modeling, and comparison with international best practices.

Step 3. Concept Development

Drafting the Concept: Based on the preliminary research, a concept draft is developed. This draft outlines the objectives of the proposed tax policy, its general structure, and the expected impacts. The concept should clearly state the rationale behind the policy and its intended benefits.

Approval of the Concept: The concept draft is reviewed and approved by relevant governmental bodies. This review ensures that the concept aligns with the broader policy goals and complies with legal and regulatory standards.

Step 4. Draft Legislation Development

Drafting Detailed Legislation: Detailed tax legislation is drafted based on the approved concept. This involves specifying the legal and technical aspects of the policy, including definitions, tax rates, exemptions, and procedural requirements.

Review and Feedback: The draft legislation is circulated for feedback among various stakeholders, including government departments, legal experts, industry representatives, and the public. This step ensures that the draft is robust and considers different perspectives.

Step 5. Impact Assessment and Cost Estimation

Impact Assessment: A thorough assessment is conducted to evaluate the potential economic, social, and legal impacts of the proposed tax policy. This includes analyzing how the policy will affect different sectors of the economy, government revenues, and taxpayers.

Cost Estimation: The costs associated with implementing the tax policy are estimated. This includes administrative costs, compliance costs for taxpayers, and potential revenue impacts. The cost estimation helps in understanding the financial feasibility of the policy.

Step 6. Legal Review and Government Session

Obtaining Legal Opinions: Legal opinions are obtained to ensure that the draft legislation meets all necessary legal requirements and standards. This includes verifying compliance with the Constitution, existing laws, and international treaties.

Government Discussion: The draft legislation is discussed in government sessions. These discussions allow for further review and potential amendments based on feedback from different government agencies and stakeholders.

Step 7. Submission to the Parliament

Submission of Draft Legislation: Once the government approves the draft legislation, it is submitted to the Parliament for formal discussion and approval. The submission includes all relevant documents, such as the concept draft, impact assessments, and cost estimations.

Parliamentary Review and Approval: The Parliament reviews the draft legislation, discusses its merits and drawbacks, and may propose amendments. The final version of the legislation is then voted upon. If approved, it becomes law.

Step 8. Implementation and Monitoring

Implementation: After parliamentary approval, the tax policy is implemented by the relevant governmental bodies. This involves issuing necessary regulations, setting up administrative procedures, and informing taxpayers about the new policy.

Monitoring and Evaluation: The implementation of the tax policy is continuously monitored to assess its effectiveness and impact. Regular evaluations are conducted to identify any issues or areas for improvement. Adjustments can be made based on the findings to ensure the policy achieves its intended objectives.

Box 3. Gender consideration in tax policy formulation

Integrating gender equality into Mongolia's tax policy formulation process can be achieved by leveraging several strategic opportunities throughout the policy development stages. One critical entry point is during the preliminary research phase, where the government-approved Needs and Demands Analysis Methodology explicitly considers human rights implications, including compliance with the Gender Equality Act. This methodology ensures that gender considerations are systematically addressed from the outset by asking whether the concept of gender is included and whether the policy guarantees equal rights, opportunities, and treatment for men and women. Additionally, during the concept development phase, it is crucial to outline gender-specific objectives and analyze how the proposed tax policy will impact different genders. Engaging with gender experts and women's organizations during the review and feedback stage can further ensure that diverse perspectives are considered, helping to identify potential gender biases and suggesting necessary adjustments.

Further integration of gender equality can occur during the impact assessment and cost estimation phase by conducting thorough gender impact assessments to evaluate the proposed tax policy's economic, social, and legal impacts on different genders. Legal reviews and government discussions should also incorporate gender equality considerations to ensure compliance with the Gender Equality Act and other relevant laws. Finally, continuous monitoring and evaluation of the implemented tax policy are vital to identify any issues or areas for improvement, allowing for necessary adjustments to achieve the intended gender equality objectives. By focusing on these key entry points, Mongolia can develop tax policies that promote both economic growth and gender equality, ensuring fair and inclusive treatment for all citizens.

3.1.3. Tax Compliance and Administration:

In a concerted effort to modernize and streamline its tax administration, Mongolia has embarked on a comprehensive digitalization initiative. A pivotal step in this process was the launch of the New Tax Administration System by the General Tax Authority of Mongolia on January 14, 2019. This system marks a significant departure from Mongolia's conservative tax administration processes, ushering in an era of enhanced efficiency, transparency, and taxpayer convenience.

The new tax administration system has revolutionized the taxpayer registration process, enabling seamless 100% online registration of taxpayers. Additionally, the system leverages data from the VAT receipts system to assist taxpayers in preparing their annual tax returns. This streamlined approach extends to tax return submission and tax payment, which can now be completed entirely online.

Despite these advancements, the system currently lacks the capability to collect gender-disaggregated data. This limitation poses a significant challenge for developing and implementing equitable tax policies that address the distinct needs of different genders. Without gender-disaggregated data, it is difficult to accurately assess the impact of tax policies on men and women, hindering efforts to promote gender equality.

To overcome this limitation, it is essential to enhance the tax administration system to include the collection and analysis of gender-disaggregated data. This improvement would involve updating taxpayer registration forms to capture gender information and integrating this data into the tax administration's analytics framework. Additionally, training tax administration personnel on the importance of gender-disaggregated data and its role in policy formulation can further support these efforts. By incorporating these enhancements, Mongolia can ensure that its tax policies are more inclusive and responsive to the needs of all citizens, fostering a fairer and more equitable tax system.

Box 4. Benefits for women

The digitalization of tax services brings significant benefits, particularly for women. By increasing accessibility, improving financial literacy, and empowering women to participate actively, digitalization can create a fairer and more inclusive tax environment for all.

Online filing systems and mobile apps can simplify the tax filing process, eliminating the need for travel and long queues at tax offices. This is especially beneficial for women in rural areas, those with limited mobility, or those balancing childcare responsibilities. The convenience of digital platforms allows women to manage their tax obligations more effectively, leading to greater financial independence and empowerment.

However, it is important to note that these benefits can only be fully realized if the digital divide between women and men is also addressed. Without efforts to ensure equal access to digital technologies and the internet, digitalization measures might inadvertently reinforce existing gender gaps.

While the overall improvement of tax compliance and tax services benefit the gender equality, the Mongolian tax administration have also launched the "Gender Equality Seal at the Mongolian Tax Administration" project. This initiative builds on the Equanomics framework and aims to create a more equitable tax system.

The implementation of the Gender Equality Seal within the GTA since September 2023 represents a crucial step towards gender-responsive tax reforms. Despite the project's novelty and the short timeframe, the administration has already implemented many positive changes.

Previously, the burden of addressing gender issues in the tax administration fell solely on one staff member, an unsustainable and inefficient approach. The Gender Equality Seal initiative highlighted the need for a broader perspective. In this regard, the GTA has established a Gender Sub-Committee with representatives from all units within the GTA. This committee fosters improved understanding of gender issues, impacting unit operations and service delivery.

Furthermore, capacity building workshops targeted at each tax unit have been instrumental in integrating gender equality principles into their functioning. This has led to tailored tax education programs, workshops, and campaigns that cater to the specific needs of women entrepreneurs, taxpayers, and businesses.

Another significant breakthrough is the implementation of sex-disaggregated data collection. The absence of this data has hindered the ability to understand the differential impact of tax policies and services on men and women. To address this, a separate data collection and analysis initiative has been launched. This effort will help identify and address gender disparities, design targeted programs, make informed policy decisions, and monitor progress towards gender equality.

These initial changes under the Gender Equality Seal project are promising. The GTA anticipates fostering a more inclusive and diverse organizational culture and improving service delivery by considering the specific needs of women, particularly the most underserved groups. By incorporating these needs, the GTA aims to make its services more efficient and equitable.

3.2. TAX POLICY ANALYSIS

There isn't a single tax with a universally clear-cut impact on gender equality. The effect can vary depending on a country's specific tax structure and economic landscape.

For the purpose of gender analysis of taxes in Mongolia, we will focus on the following types of taxes in accordance with the scope of consultancy:

- Personal income tax
- Corporate income tax
- Value added tax
- Property taxes

3.2.1. Personal income tax

Progressive Personal Income Tax (PIT) systems can directly influence individual economic behavior and household income distribution. In this sence, it is reasonable to conclude that ***PIT is likely to have more impact on gender equality*** than other taxes in most cases.

Countries that design their PIT systems to reduce pay gap, promote workforce participation, recognize the care economy, and support second earners **are better equipped to** tackle gender inequality.

Reduced Gender Pay Gap: Progressive taxation, where higher income earners face higher tax rates, can help mitigate gender income disparities. Since women are often concentrated in lower-paying jobs, a progressive system can reduce their overall tax burden relative to higher-earning men. This redistribution of income can contribute to narrowing the gender income gap.

Workforce Participation: By offering ***tax deductibles, allowances or credits*** for childcare expenses, for example, a PIT system can incentivize second earners, typically women, to participate more in the workforce. This leads to increased household income and greater economic security for families, promoting gender equality within households.

Recognition of Unpaid Labor (care economy): The care economy, dominated by women, is crucial but traditionally not reflected in tax systems. ***Tax deductibles, allowances or credits*** for childcare and eldercare can acknowledge this unpaid work, creating a more equitable system. This can incentivize a fairer division of caregiving responsibilities within households.

<u>Building on these considerations, let's conduct a gender analysis of Mongolia's existing Personal Income Tax Law (PITL) design:</u>

PITL employs a hybrid structure with multiple income categories, each subject to distinct tax rates, exemptions, and credits. Paragraph 6.3 of PITL establishes types of income, and it is classified as follows:

- Wage, bonus and other equivalent income (hereafter refered as "employment income");
- Business income;
- Capital income;
- Capital gains;
- Indirect income;
- Other income.

Box 5. PIT income categorization and gender equality

Unlike countries with progressive tax structures on total income (typically exclude capital gains), such as France, Japan, Singapore, Taiwan, and Korea, Mongolia's PITL utilize a hybrid approach.

This system relies on various income classifications, determination methods, and tax rates, making it complex and potentially hindering efforts to assess its impact on gender equality.

Despite this challenge, Mongolia has an opportunity to address gender income inequality. By adopting successful practices and learning from international examples, the country can design a tax system that promotes a more equitable landscape.

Employment income:

Tax on employment income is determined as follows:

Tax payable = (Total employment income – Empoyee social security contribution) x Tax rate – Progressive income tax credit

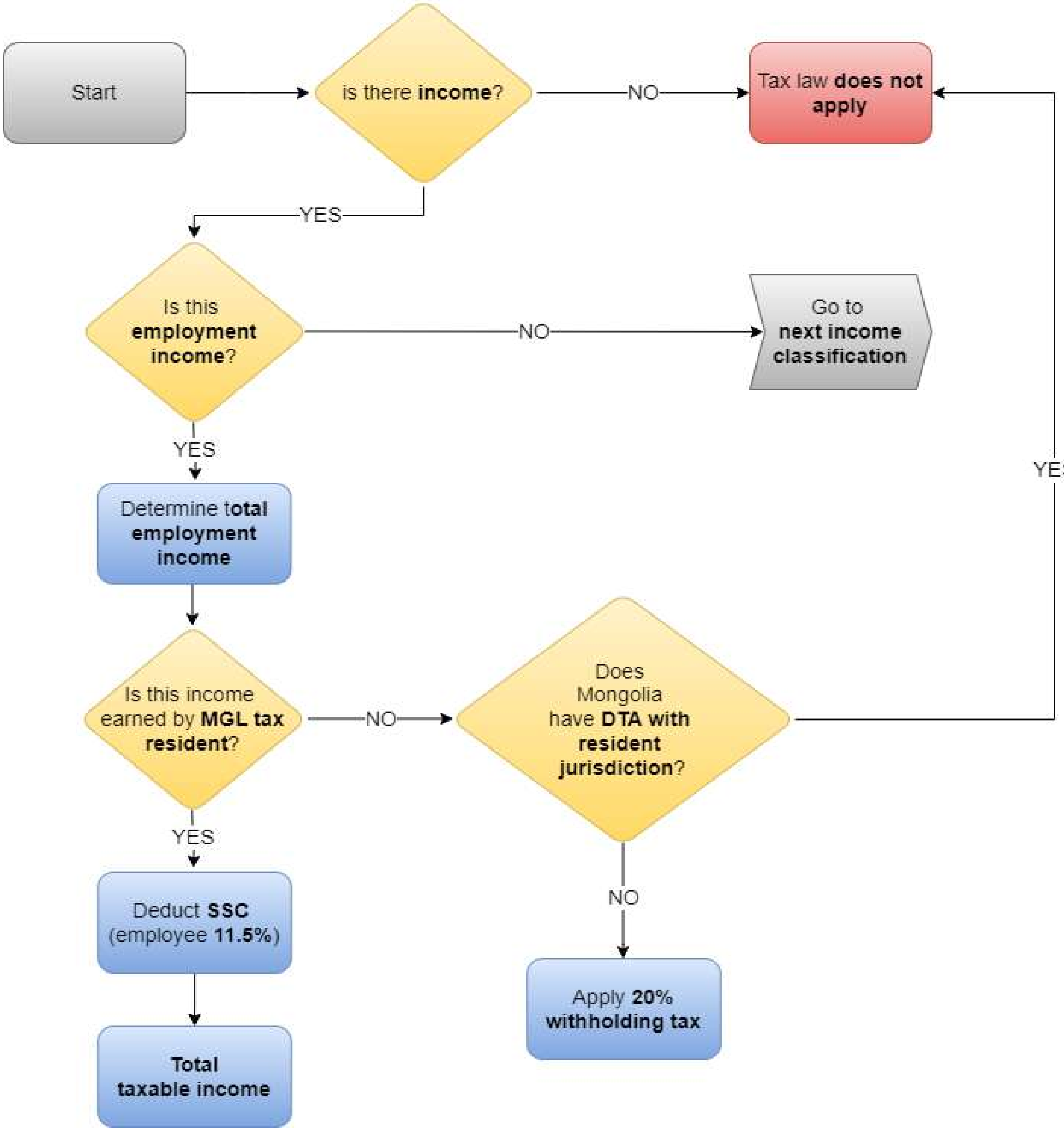
Article 18 of Mongolia's Social Security Law outlines mandatory social security contributions for employees. Here's a breakdown of how these contributions are shared:

- **Employer Contribution:** Employers are required to pay 12.5% of the employee's annual total salary towards social security.
- **Employee Contribution:** Employees contribute 11.5% of their annual salary towards social security (Employer will withhold and pay this amount).

It's important to note that Mongolia's Social Security Law (Paragraph 19.4) establishes a cap on mandatory employee contributions. The total amount an employee contributes cannot exceed 10 times the annual minimum wage.

The flowchart below explains the PITL process for taxable income determination for employment income.

Chart 1. Determination of taxable employment income



Box 6. Missing elements

Unpaid Care Work: To promote gender equality, the PITL could benefit from considering deductions or allowances for unpaid care work such as childcare, eldercare, and disability care. This would recognize the significant economic value of these activities, often disproportionately performed by women.

Related Expenses: Additionally, allowing deductions for related expenses associated with childcare, eldercare, and disability care could further incentivize workforce participation, especially for second earners (often women). This could help narrow the gender pay gap and create a more equitable tax system.

Given Mongolia's hybrid approach to income taxation, policymakers should carefully evaluate whether to address these issues through tax deductions or credits:

- **Tax Deductions:** Deductions directly reduce taxable income, potentially benefiting higher earners more due to their larger tax base.
- **Tax Credits or Refund:** Credits provide a monetary reduction in taxes owed, offering a more consistent benefit regardless of income level.

Given Mongolia's current economic situation and the design of its PITL, a tax credit approach might be more suitable for promoting gender equality than tax deductions:

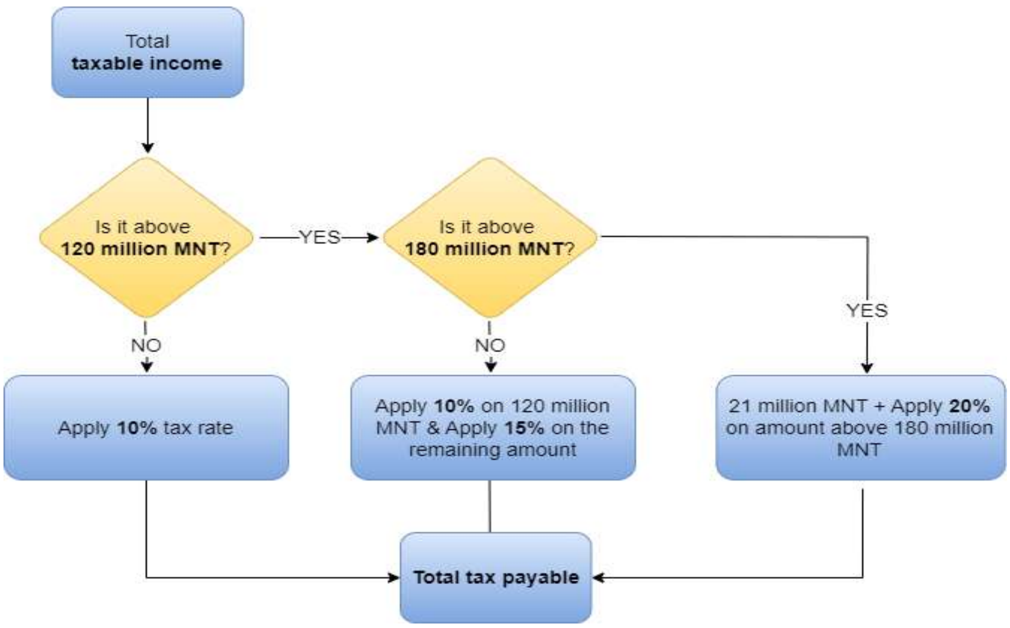
- **Flattening the Benefit:** Tax credits provide a dollar-for-dollar reduction in taxes owed, regardless of income level. This ensures a more consistent benefit for everyone, especially those in lower income brackets who often rely on childcare and eldercare services.
- **Limiting Impact on Inequality:** Tax deductions, on the other hand, can exacerbate income inequality. Since deductions reduce taxable income, they offer a larger benefit to high earners with a higher tax base. This could potentially widen the gap between the wealthy and those who need the most support for childcare and eldercare expenses.

Taxation on employment income also depends on residency and taxed as follows:

- 20% of total taxable employment income for non-residents
- Progressive rates apply to total taxable employment income for residents.

As for Mongolian residents, the flowchart below explains the progressive taxation.

Chart 2. Taxation of employment income for residents



Box 7. Progressive taxation and gender equality

According to the National Statistics Office, the gender pay gap in Mongolia stood at around 20.2% in 2023. This disparity can be attributed to several factors, including:

- **Occupational Segregation:** Men are more likely to be employed in high-paying sectors like mining, a crucial part of the Mongolian economy. Women, on the other hand, tend to be concentrated in lower-paying sectors such as the service industry.
- **Unpaid Care Work:** Women often shoulder a larger burden of unpaid care work, such as childcare and eldercare, limiting their opportunities for full-time employment or career advancement in higher-paying sectors.

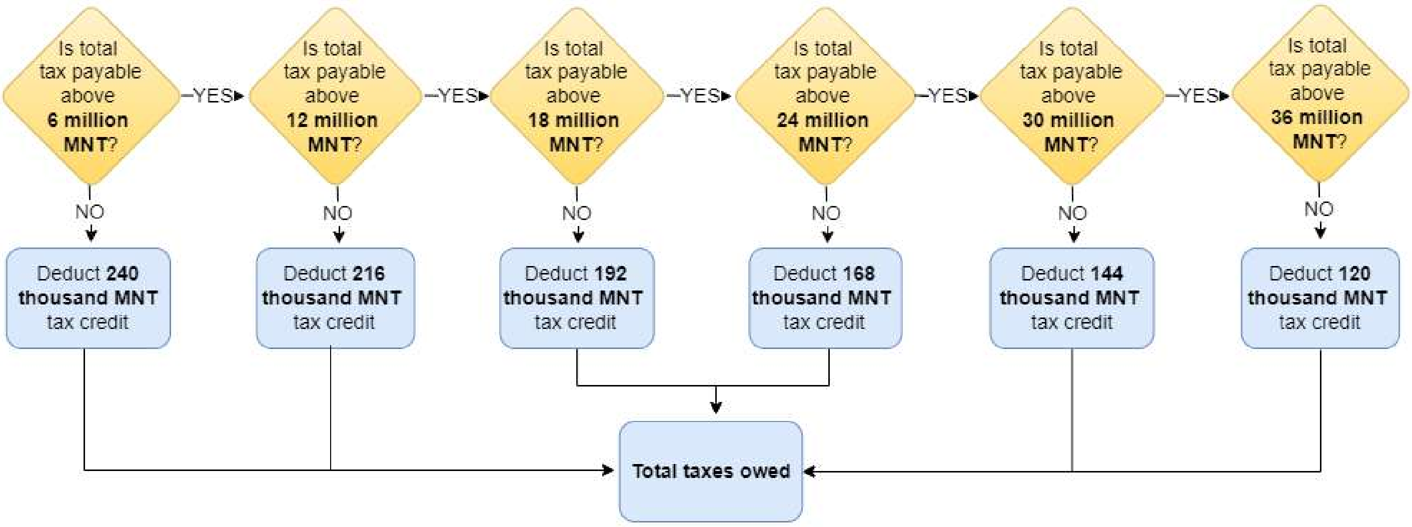
Mongolia's introduction of progressive taxation on employment income in 2023 represents a significant step towards reducing income inequality. While it's too early to definitively say progressive taxation has bridged the gender pay gap in Mongolia, early signs are promising.

We advocate for the continuous refinement of the progressivity scale in Mongolia to address factors such as inflation and rising income inequality in the current economic climate. This will further reduce gender pay gap.

However, given the recent implementation of progressive taxation in 2023, allowing sufficient time to assess its impact might be prudent.

In addition, PITL incorporates a mechanism to reduce the tax burden for low-income earners. Section 23.1 of Article 23 outlines an additional tax credit specifically for this purpose. Brief description of this mechanism is explained in the following chart:

Chart 3. Tax credit on employment income



Box 8. Evaluation

According to 2023 consolidated PIT tax return data, the total tax expenditure for this mechanism is around 114.2 billion MNT and total of 800,000 taxpayers enjoy this benefit. Women enjoyed slightly higher tax credits than men, receiving 59.4 billion MNT (52%) compared to men's 54.8 billion MNT (48%).

While progressive tax rates already capture the essence of progressive taxation, the effectiveness of additional progressive credits might be unnecessary. Also, there appears to be a limited awareness among taxpayers regarding the existence of this particular benefit.

On the other hand, targeted tax credits could be a more effective way to allocate resources, promoting women labor participation and recognizing the value of unpaid work.

Therefore, this resource can be allocated towards targeted gender responsive tax policy.

In summary, the PITL could introduce different mechanisms that recognize unpaid work and promote labor participation. This is main tax policy reform that could directly reduce gender income inequality. A more detailed analysis on this particular issue is carried out in the next section (Analysis)

Business income:

Business income by individuals is determined similarly to CIT as types of expenditures satisfying conditions met in Article 13 of the CIT can be deducted for the purpose of determining the taxable income. Also, if an individual prefers to utilize the "Simplified tax regime" then the taxable business income is determined on a gross basis (similar to CIT).

Box 9. Business income taxation and gender equality

The Personal Income Tax Act promotes women's entrepreneurship through gender-neutral incentives that align with their participation in the workforce.

Data from the 2023 personal income tax report reveals a gender disparity in self-employment. While men comprise 55% of the estimated 168,417 self-employed individuals who filed tax return, women hold the remaining 45%.

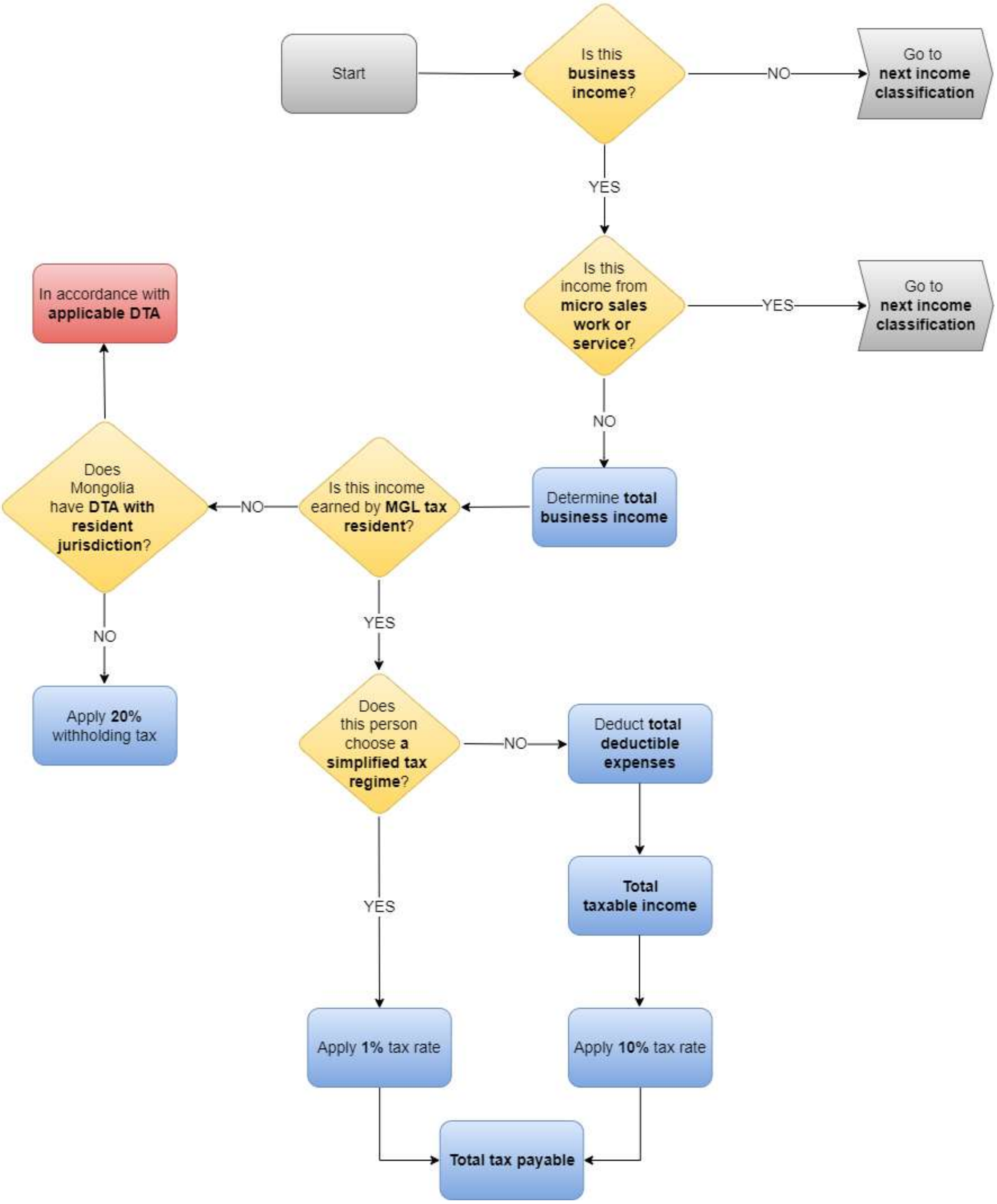
Simplified Tax Filing for self-employed individuals: We created a simplified tax filing system for business onwers, reducing administrative burdens and making tax compliance easier.

Self-employed individuals have two options for income tax:

- 1% tax on gross sales.
- 10% tax on net profits after deducting business related expenses.

To be considered a deductible business expense, wages paid to a family member should be reasonable and commensurate with the services provided. Additionally, the amount paid towards social insurance premiums for the family member can be used to substantiate the reasonableness of the wages.

Chart 4. Business income taxation flowchart



Box 10. Evaluation

The Personal Income Tax Act doesn't offer gender-specific tax incentives, but several existing incentives significantly benefit women entrepreneurs. For example:

Tax credit for agricultural products: A 50% tax credit on income from crops like potatoes, vegetables, grains, and fruits directly benefits women, who make up a significant portion of the agricultural workforce. This incentive encourages them to formalize their businesses and potentially reinvest profits back into their farms.

Tax credit for remote areas: Discounts of up to 90% on income tax for businesses in remote provinces can incentivize women entrepreneurs to establish themselves in these areas. This can contribute to economic development in these regions and empower women through business ownership.

Tax incentive for micro business owners:

- Micro-entrepreneurs, those without a physical workplace or booth, will pay a minimum income tax of 1% of the minimum wage and a maximum of 50% of the minimum wage.
- Micro-entrepreneurs in freight or passenger transportation services with no fixed workplace, the minimum income tax is set at 5% of the minimum wage, and the maximum doesn't exceed the minimum wage itself.

Capital income of resident taxpayer will generally be taxed at 10% with the following exception:

- A special 5% tax rate will apply on dividend and interest income of an investor (an individual in this case) who purchased debt instruments or shares of a Mongolian resident entity (not holding mineral resources, oil exploration, and mining special licences) traded in local and international stock markets.

Box 11. Flat tax rate on capital income and gender equality

It is an accepted general practice for countries to employ uniformal tax rate on capital income. Although having progressive taxation would yield positive outcomes for gender equality, it would create many other implementation issues in the tax law, thereby creating unintended negative consequences for investment and tax avoidance.

Capital gains:

- income from the sale of immovable property is taxed at 2%;
- income from sale of shares is taxed at 10%;
- income from aleniation of other property is taxed at 10%.

Other:

• income from gambling, quiz and lottery is taxed at 40 percent
• income from artistic performances and sport competitions is taxed at 5 percent

For non-resident taxpayers, Mongolian sourced income is currently subject to a flat 20 percent tax rate.

Tax credits: Article 23 of PITL lists the types of tax credits avaible for certain taxpayers. These generally have specific conditions and based on sector. Major tax credits include:

To support small and medium-sized business owners:
- Individuals opting for the "Simplified Tax Regime" will be subject to a 1% tax on their total sales income.
- Permanent resident taxpayer, who produced or planted below products, will get 50 percent discount on taxable income generated from the particular production only, including grains, potatoes, vegetables and their seeds, fruits and berries and their seeds and seedlings, fodder plants, tree seedlings.

To promote decentralization:
- Taxpayers in remote regions who operate locally at a distance of 500 kilometers from the capital receive a 50% income tax credit, while those operating 1,000 kilometers away from the capital receive a 90% income tax credit.
- A tax exemption of up to 90 percent percent on rental income until 2029 for taxpayers leasing apartments within the local region.

To promote investment:
- Bond payments, interest, and penalties by the Government and the Development Bank of Mongolia will be exempt from taxes.
- A tax exemption of up to 90 percent on income generated from securities sales until 2029.

To support other taxpayers:
- Mongolian citizens buying or building their first home with taxable income or a loan can receive a tax discount up to 6 million Togrogs, equal to the amount spent on the home.
- Mongolian taxpayers with children enrolled in domestic or foreign higher education or vocational schools can receive an income tax discount equal to the tuition paid, as proven by payment slips, for the first undergraduate or diploma degree.
- Income of disabled persons will be exempt from PIT.
- Pensions, benefits, payments, discounts, compensation and one-time grants provided as specifically stated in the legislation will be exempt from PIT.
- Taxpayers who purchase renewable energy equipment, fuel extraction equipment, furnaces, insulation materials, or heaters for personal use will receive a tax discount equal to the cost of these items, applied to the income taxes for the same year.
- Taxpayers will receive an income tax discount equal to the amount donated for cultural heritage conservation or restoration, as proven by a payment receipt.
- Taxpayer's donor, insurance, compensation and mongolian State Prize, Government Prize, Mongolian People's or Honored Award, prize for scientific discovery income shall be tax discounted.

3.2.2. Corporate income tax

CITL lays the groundwork for how income earned by both foreign and domestic businesses operating in Mongolia is taxed.

Box 12. Corporate income tax and gender equality
While corporate income tax itself doesn't directly target gender, it can have unintended consequences for gender equality. Variations in tax rates, deductions, and credits may create situations where businesses owned by men benefit disproportionately compared to those owned by women. This could potentially widen the gender income gap.
Policymakers should be mindful of these indirect effects when designing corporate income tax policies. In Mongolia, for instance, a gender-sensitive analysis of tax incentives could be crucial to ensure they promote equitable outcomes for businesses regardless of ownership.

Below is a breakdown of key aspects it regulates:

Similar to PITL, CITL employs a hybrid structure with multiple income categories, each subject to distinct tax rates, exemptions, and credits. Paragraph 7.4 of CITL establishes types of income, and it is classified as follows:

- Business income;
- Capital income;
- Capital gains;
- Other income.

Box 13. Hybrid approach and gender equality
Mongolia's Corporate Income Tax Law (CITL) utilizes a complex structure with various classifications, income determination methods, and tax rates. This complexity makes it challenging to comprehensively evaluate the law's potential indirect effects on gender equality.

Exempted income: Article 21 of CITL lists types of exempted income, these generally include income from Government bonds, income of the petrolium sector (entities with product sharing agreement), income derived by NGOs, etc.

Determination of taxable income: Article 18 of CITL regulates how each income category will determined. Business income is determined on net basis where certain expenditures satisfying conditions mentioned in Chapter 3 (deductibles) are substracted from gross business income for determination of tax base.

Furthermore, a taxpayer with an annual turnover below 50 million MNT can opt for "Simplified tax regime" and the taxable income for this specific regime will be on a gross basis where no deductions are allowed.

Article 13 of CITL outlines requirements for expenses to be deducted from gross taxable income:

- Must be incurred during the tax period.
- Must be directly related to earning the taxpayer's gross taxable income.
- Must be real and substantiated with proper documents specified in the Accounting Law.
- Receipts specified in the General Tax Law are required for all goods, works, and services except those mentioned below:
- Must be paid or reported as payable by the taxpayer running the business.

Article 15 of CITL outlines various deductible expenses from gross taxable income, including normal amortization of goods, social and health insurance premiums, taxes and fees payable to a budget, expenses related to vocational training centers, donations to support NGOs and sports activities, contributions to reduce air pollution, and resources accumulated in specific funds.

On the other hand, capital income, including divident, interest, and royalties are taxed on gross basis.

Tax rate: Business income of resident taxpayer is taxed at a progressive rate ranging from 1% to 25%, as follows:

- 1% appleas to resident taxpayers opting for the Simplified tax regime;
- 1% applies to resident taxpayers with annual revenue of up to 300 million MNT (except for those operating in mining, petroleum, alcoholic beverage, and tobacco industries);
- 10% applies to the first MNT 6 billion of annual taxable income;
- If annual taxable income exceeds MNT 6 billion, the tax shall be MNT 600 million plus 25% of income exceeding MNT 6 billion.

Box 14. Progressive taxation on business income and gender equality

Mongolia's Corporate Income Tax Law (CITL) offers potentially favorable tax rates for small and medium-sized enterprises (SMEs). This could have a positive impact on gender equality, considering data from the 2022 consolidated CIT tax return suggests a majority of SMEs are women-owned.

Capital income of resident taxpayer will generally be taxed at 10% with the following exception:

- A special 5% tax rate will apply on dividend and interest income of an investor who purchased debt instruments or shares of a Mongolian resident entity (not holding mineral resources, oil exploration, and mining special licences) traded in local and international stock markets.

Income earned in Mongolia or Mongolian source income derived by the non-resident taxpayer is taxed at 20%. However, these rates are subject to reduction if there is a double tax treaty (Mongolia has 26 tax treaties in force as of May 2024).

Box 15. Flat tax rate on capital income and gender equality

It is an accepted general practice for countries to employ uniformal tax rate on capital income. Although having progressive taxation would yield positive outcomes for gender equality, it would create many other implementation issues, thereby creating unintended negative consequences for investment and tax avoidance.

Tax credits: Article 22 of CITL lists the types of tax credits avaible for certain taxpayers. These generally have specific conditions and based on sector. Major tax credits include:

To support small and medium-sized businesses:
- A tax credit of 90% is available to a taxpayer whose revenue is less than 1.5 billion tugriks and operates in industries other than mining, petroleum, alcoholic beverage, and tobacco.

To promote decentralization:
- Taxpayers with headquarters in remote regions who operate locally at a distance of 500 kilometers from the capital receive a 50% income tax credit, while those operating 1,000 kilometers away from the capital receive a 90% income tax credit.
- Companies conducting their main business activities outside the capital that hire local individuals through the labor stock exchange can deduct 120% of that employee's salary for tax purposes /mining sector excluded/.
- The income tax imposed on the sale of newly built public housing within the local area will be subject to a reduction of up to 90 percent
- A tax exemption of up to 90 percent percent on income until 2029 for companies constructing new residential buildings for public use and leasing apartments within the local region.

To promote infrastructure development:
- Companies starting heat and electricity generation projects after 2023 will get a 90% corporate tax exemption for the first three years, and a 50% exemption for the next three years.
- New construction in local areas can be depreciated using the straight-line method over 15 years /mining sector excluded/.
- Companies can deduct 50% of their moving costs when relocating operations to local areas.

To promote investment:
- Tax on dividend income on shares by Mongolian banking institution issued in domestic and foreign securities market reduced from 10% to 5%.
- Tax on dividends and interest income of the investors from Mongolian public companies reduced from 10% to 5%
- The operating income of investment fund will be exempt from taxes.
- A tax exemption of up to 90 percent on income generated from securities sales until 2029.

To support innovation and information technology sector:

- For a 5-year period starting from the date of registration in the state registry, domestic start-up companies producing innovative products, services, and works will receive a 100% sales tax exemption.
- Software companies will be taxed at 5 percent on their international wire transfers for the purchase of software rights fees, and other server rental fees.

To promote other sectors:

- Companies that employ disabled people can get a tax credit in proportion to the percentage of the disabled employees to the total number of employees.
- Companies growing or producing cereals, potatoes, vegetables, milk, fruits, berries, fodder plants, or meat are eligible for a 50% tax reduction.
- Companies can receive a tax credit on income from the sale of environmentally friendly equipment and tools that conserve natural resources, decrease environmental pollution, and minimize waste.

The gender distribution of CEOs and shareholders in legal entities as of 2022 reveals significant disparities, with men occupying 61% of CEO positions and 53% of shareholder roles, compared to 38% and 45% for women, respectively. Men are still predominantly in top executive roles, highlighting an area where gender equity is lacking.

The distribution among shareholders is more balanced but still favors men, who make up 53% of shareholders, while women account for 45%. The gap here is narrower compared to CEO positions, suggesting some progress towards gender parity in ownership stakes (Figure 12).

Figure 3. Gender distribution of legal entities, 2022

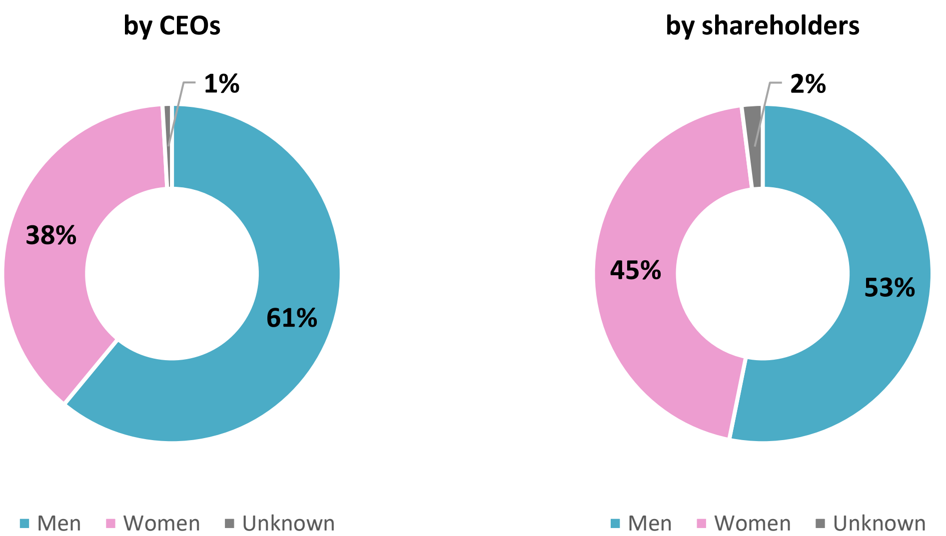


Figure 13 illustrates significant gender disparities in CEO positions across various sectors in Mongolia for 2022. Men overwhelmingly dominate leadership roles, particularly in construction (76% men vs. 23% women) and professional, scientific, and technical services (69% men vs. 31% women). While sectors such as wholesale and retail (60% men vs. 39% women) and agriculture, forestry, and fishing (57% men vs. 42% women) show relatively narrower gaps, the overall trend indicates male predominance in executive roles.

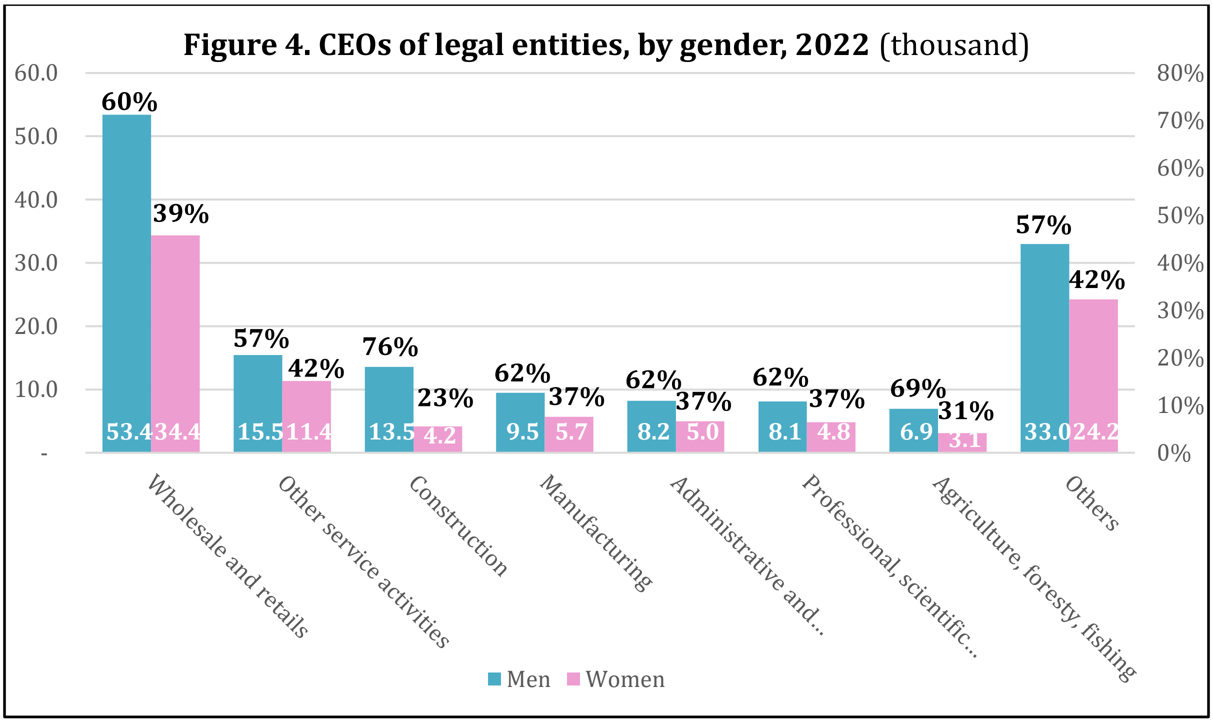
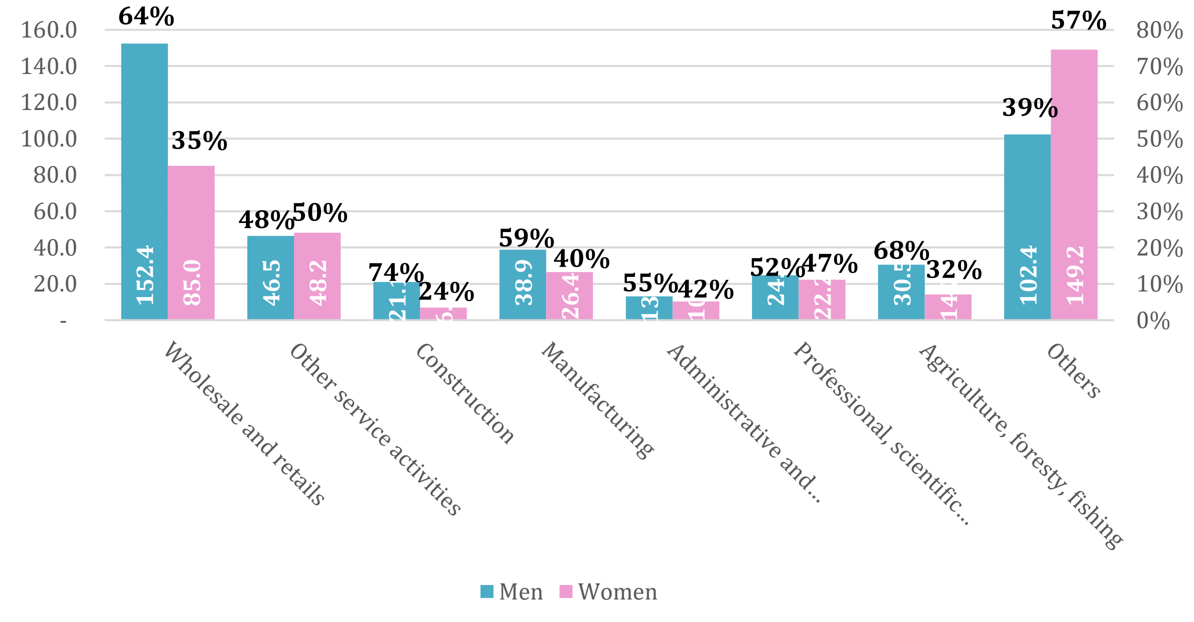


Figure 14 presents the gender distribution of shareholders across various sectors in 2022, revealing both similarities and differences compared to the distribution of CEOs. Men dominate as shareholders in sectors such as construction (74% men vs. 24% women) and wholesale and retail (64% men vs. 35% women), mirroring the gender disparity seen in CEO positions. However, some sectors show more balanced ownership, such as other service activities (48% men vs. 50% women) and administrative and support services (55% men vs. 42% women). Interestingly, the agriculture, forestry, and fishing sector sees a reversal with women holding a majority of the shareholder positions (57% women vs. 39% men), contrasting with the male dominance in CEO roles. Overall, while men still hold a majority of shareholder positions, the gender gap is less pronounced compared to the executive roles highlighted in Figure 13. These figures indicate that while ownership is more gender-balanced in certain sectors, leadership roles still predominantly favor men, suggesting a need for policies that not only support female entrepreneurship but also promote women into top executive positions to ensure equitable representation and influence across all levels of business.

Figure 5. Shareholders of legal entities, by gender, 2022
(thousand)

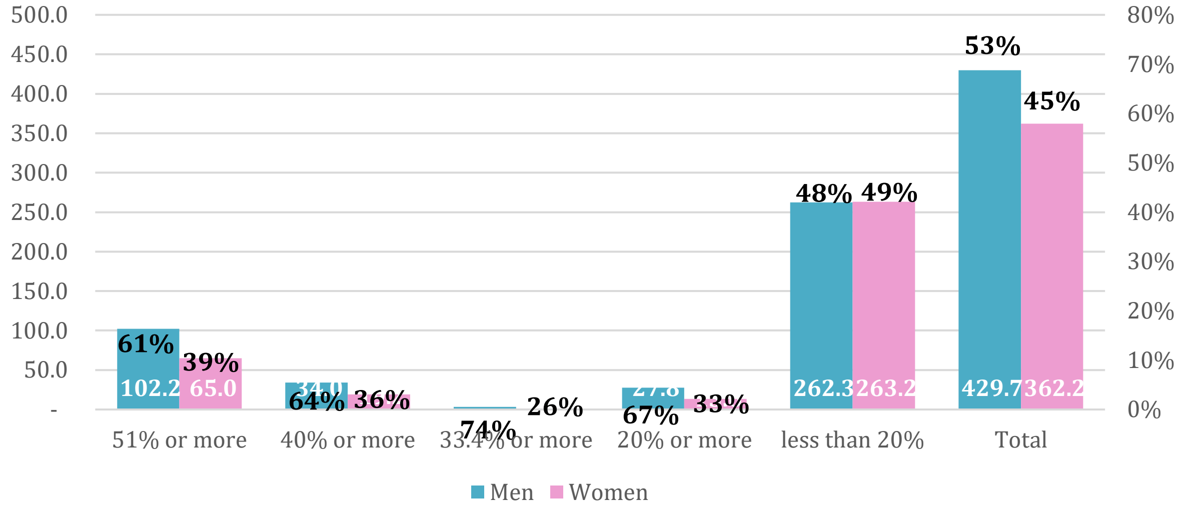


The distribution of ownership shares in legal entities data reveals that men predominantly hold higher ownership stakes in legal entities, with 61% of shares owned by men at the 51% or more level compared to 39% by women. Similarly, at the 40% or more ownership level, men hold 64% of the shares while women hold 36%.

This trend continues across different ownership brackets, with men consistently holding a larger share of ownership. Notably, in the "less than 20%" ownership category, the distribution is nearly equal, with men holding 48% and women holding 49%, indicating a more balanced ownership at lower stakes.

Overall, men hold 53% of the total shares in legal entities, while women hold 45%, demonstrating a significant, though not overwhelming, gender gap in ownership. This distribution underscores the importance of promoting gender equity in corporate ownership through targeted policies and initiatives that support female entrepreneurs and investors, ensuring that women have equal opportunities to acquire substantial ownership stakes in legal entities (Figure 15).

Figure 6. Shares of legal entities, by gender, 2022 (thousand)



Box 16. CIT incentives and gender equality

Mongolia's Corporate Income Tax Law (CITL) offers various tax incentive programs designed to support important goals like fostering small and medium-sized enterprises (SMEs), decentralization, infrastructure development, investment, and innovation. These incentives are intended to be beneficial for all businesses, regardless of gender.

However, due to the complexity of the CITL and its incentive structure, definitively assessing their impact on gender equality can be challenging. A gender impact analysis could still be a valuable tool to explore potential disparities in how these incentives benefit men-owned versus women-owned businesses.

While a comprehensive reform of the Personal Income Tax (PIT) system might have a more direct impact on gender equality, a gender analysis of CIT incentives can still provide valuable insights. Section on tax incentives will provide preliminary picture.

3.2.3. Value added tax

VAT is often criticized for being regressive. This means it takes a larger portion of income from low-income earners who spend a higher percentage on necessities taxed by VAT. This repressiveness can also increase gender inequality. Women tend to be responsible for more household purchases, further amplifying the impact of VAT on their budgets.

To address these concerns, many countries implement reduced VAT rates for specific purposes:

- **Making essentials affordable:** Basic necessities like food, medicine, and essential utilities are often subject to lower VAT rates to ensure they remain accessible to everyone.

- **Supporting essential services:** Public transportation, education, and other social services might benefit from reduced VAT to make them more affordable and accessible.
- **Encouraging specific industries:** Sectors like childcare or tourism industries may see reduced VAT rates to stimulate growth and make their offerings more attractive.
- **Promoting environmental sustainability:** Energy-efficient appliances or other environmentally friendly products might have lower VAT rates to encourage their adoption.
- **Stimulating specific economic activities:** Governments might use reduced VAT rates to encourage specific economic activities, like home renovations or repairs, to boost economic growth in a particular sector.

However, there is several challenges for implementing reduced rates:

- **Administrative Complexity:** A system with multiple VAT rates requires businesses to track which products qualify for which rate. This adds administrative burdens for businesses of all sizes, but especially for smaller businesses with limited resources.
- **Potential for Misclassification:** Distinguishing between products eligible for reduced rates and those subject to the standard rate can be difficult. This can lead to confusion, errors, and disputes with tax authorities.
- **Revenue Loss:** Reduced VAT rates mean governments collect less tax revenue. This can limit their ability to fund public services or social programs.
- **Ineffectiveness in Targeting:** Lower VAT rates might not always reach the intended beneficiaries. For example, reduced rates on restaurant meals might benefit wealthier individuals more than low-income earners who cook at home.
- **Distortionary Effects:** Differential VAT rates can create distortions in consumer behavior and economic activity. For example, lower rates on essential goods might incentivize people to purchase more of these items and less of other taxed goods.

Achieving both fairness and efficiency in VAT systems is a complex challenge, VAT itself is a flawed tool for promoting gender equality. Reduced rates and other gender-based incentives within the VAT system create additional complexities and inefficiencies.

While Mongolia's VATL is designed to be gender-neutral in principle. In theory, everyone making purchases or running businesses subject to VAT is treated equally regardless of their gender.

<u>Mongolia's Value added tax design:</u>

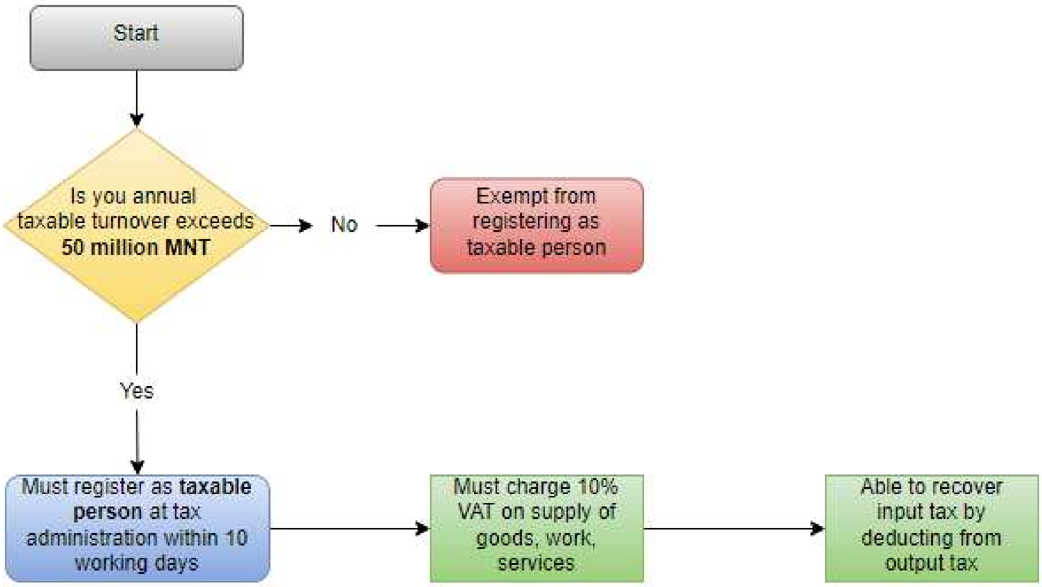
Taxpayer: Individual consumer.

Taxable person: Business entity engaged in commercial activities. Registration is mandatory for turnover exceeding 50 million MNT. Persons can also voluntarily register.

Taxable goods and services: All goods sold or services provided within or outside Mongolia, including leases, rentals, intellectual property, and intermediary services. Excludes specific exemptions.

Typical services mentioned: Utilities, rentals, intellectual property, debt repayment, sales to non-residents, gambling, intermediary services, financial income, and debt offsetting.

Chart 5. Taxable person flowchart



Tax rate:

- Standard rate: 10%
- Zero-rated supplies: Exports, international transport, foreign services, certain air services, state medals, and specific mining products.

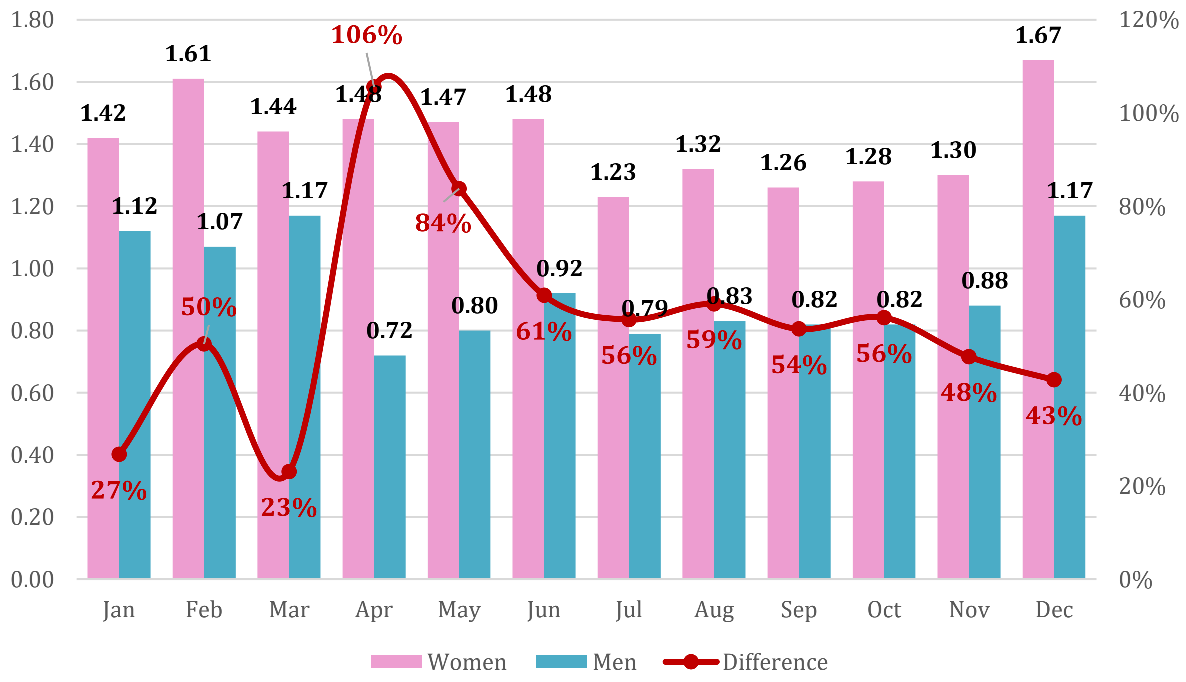
Tax exemption: These are the most common goods that are exempt in accordance with Article 13 of VATL:

- Personal goods: Limited amounts for travelers
- Humanitarian aid: Goods and services
- Disability equipment
- Aviation: Aircraft and parts
- Real estate sales: Residential property
- Medical supplies: Blood, organs
- Energy: Gas fuel and equipment
- Precious metals: Gold
- Research: Experimental products
- Agriculture: Crops, livestock, and dairy
- SME equipment: Domestically produced
- Financial assets: Asset-backed loans
- Raw materials: Imported wood, cashmere
- Industrial inputs: Oil and gas exploration equipment
- Defense: Weapons and equipment

These are the most common services that are exempt in accordance with Article 13 of VATL:

- Currency exchange
- Banking services, such as the receipt or transfer of money, or any dealing with money, any security for money or any note or order for the payment of money and the operation of any savings account;
- Services of insurance, reinsurance and registration of property;
- The issuance, transfer or receipt of any securities and shares, and underwriting of such securities;
- The issuance of loans;
- The provision or transfer of an interest related to a social and health insurance fund
- Loan interest, financial lease interest, dividends, loan guarantee fees or insurance premiums by banks, NBFIs or saving and loan cooperatives;
- Rental of residential houses and apartments;
- Medical services;
- Services of religious organizations;
- Services provided by a government organization; this shall include public services provided by the government, its agencies and budgetary organizations;
- Public transportation services;
- Tour operating services;
- Notary services.

Figure 7. Monthly spending difference (million MNT)



The monthly spending differences between men and women reveals that women consistently spend more than men throughout the year. The spending difference peaks in April, with women's spending being 106% higher than men's, and is lowest in March at 23%. This consistent higher spending by women highlights the significant financial burden they bear, likely due to their greater expenditure on household necessities and other essential goods. However, it is also important to consider that, in some cases, men may be contributing to these expenditures, particularly in households where men are the primary earners. This dynamic complicates the understanding of financial burdens and necessitates a nuanced approach to addressing spending disparities.

The persistent spending disparity underscores the regressive impact of VAT on women, as they tend to allocate a larger portion of their income to essential goods subject to VAT. To address this issue, implementing gender-responsive VAT policies is crucial. Recommendations include zero-rating or exempting essential goods such as menstrual products and children's clothing, providing targeted subsidies or tax credits for low-income households, and enhancing data collection to monitor the VAT impact on different demographics. However, it is essential to recognize that the main benefit of VAT exemptions on essential goods may not always reach the targeted women, but rather increase the profits of importers or producers. Therefore, ensuring effective monitoring and enforcement mechanisms is vital to ensure that the intended financial relief reaches women and other vulnerable groups, promoting economic equity and supporting broader gender equality objectives in Mongolia. Additionally, understanding the interplay of household financial dynamics can help tailor these policies more effectively to ensure both men and women benefit equitably from tax reforms.

Box 17. Tax exemption and gender equality

While VATL itself is gender-neutral, its exemptions intended to stimulate specific sectors can have unintended consequences for achieving gender equality. In Mongolia, the VATL exempts essential goods and services like education, healthcare, and basic foods. While these exemptions aim to benefit the overall economy, they might also hold promise for promoting female entrepreneurship, but their effectiveness requires careful consideration.

Data from the 2022 consolidated VAT return reveals a high concentration of women in management positions within exempt sectors. Notably, women comprise 68% of healthcare management, 57% in education, and 50% in finance. This suggests VAT exemptions could indirectly support female entrepreneurs in these sectors through two potential mechanisms:

- ***Reduced Operational Costs:*** *Exempting VAT on essential services like healthcare and education lowers the overall cost burden for businesses in these sectors. This could free up resources that female-owned businesses might reinvest in their ventures, allowing for expansion or hiring additional staff.*
- ***Increased Demand for Services:*** *The VAT exemption on basic necessities makes them more affordable for consumers, potentially increasing demand for these services. This could benefit female entrepreneurs by creating a larger customer base and fostering growth in their businesses.*

However, it's crucial to acknowledge that VAT exemptions might also have limitations that could hinder female entrepreneurship. One potential drawback is the inability to deduct input tax on purchases related to exempt goods and services. This can lead to increased costs for female-owned businesses in these sectors, potentially offsetting some of the benefits mentioned earlier. Additionally, it's important to recognize that male entrepreneurs can also benefit from these exemptions. Therefore, a balanced policy *approach is necessary to ensure VAT exemptions effectively promote female entrepreneurship in Mongolia.*

Recovery of VAT by taxable persons: A taxable person may recover input tax, which is VAT charged on goods supplied for carrying out activities within the scope of VAT. A taxable person generally recovers input tax by deducting it from output tax, which is VAT charged on supplies made.

If the amount of input deduction for a given month exceeds the amount of tax payable in the same period, the tax administration shall apply the following methods:

- Offset against the potential tax payable in the subsequent periods if any
- Offset against the other types of tax payable
- **Refund in cash**

Input tax cannot be recovered on purchases of goods, works and services and property rights that are not used for making supplies within the scope of VAT (for example VAT incurred for the purpose of tax-exempt supplies).

3.2.4. Property taxes

Gender inequality in property ownership is influenced by a complex interplay of factors, with cultural norms and economic realities playing particularly significant roles.

Cultural factors may include:

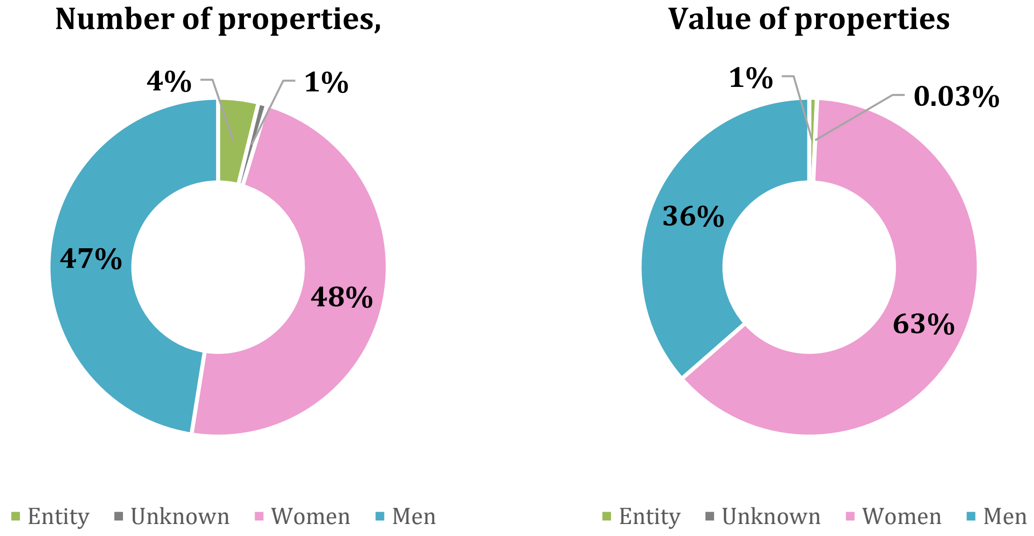
- **Limited property rights for women:** Legal or cultural restrictions.
- **Patriarchal inheritance:** Legal or cultural favoring of male heirs.
- **Gender bias in land registration:** Difficulty registering property.
- **Dowry systems:** Bride's family giving property to groom's family.

Economic factors may include:

- **Lower income:** Gender pays gap limits capital accumulation.
- **Limited access to credit:** Lack of collateral or lower credit scores can hinder obtaining property loans.
- **Financial literacy gap:** Limited financial education can make property management and transactions challenging.
- **Informal work:** Unrecognized income in the informal sector makes qualifying for mortgages difficult.
- **Caregiving responsibilities:** Time and resources dedicated to caregiving limit income potential and savings.

Figure 17 presents a detailed breakdown of property ownership by gender and type of owner in 2023. The data reveals an interesting dynamic: while the number of properties owned by women (48%) and men (47%) is nearly equal, the value of properties owned by women (63%) significantly surpasses that of men (36%). This suggests that women tend to own higher-value properties compared to men. However, a major concern is that the data is collected in repeated numbers, which may distort the true distribution of property ownership. Additionally, Mongolia's property valuation system is weak, with many properties valued significantly below their market value. This under-valuation can obscure the true economic disparities in property ownership. Improving data collection on property ownership by gender, along with strengthening the property valuation system, will enable more precise and effective policy-making, ensuring that tax measures are well-targeted and equitable.

Figure 8. Gender distribution of properties, 2023



In both the capital city and the local area, the distribution of property quantities by gender and other categories is identical. Women hold the largest share of properties at 49%, followed closely by men at 46%. This parity in property ownership quantities indicates that, irrespective of the location, women and men have relatively equal access to property ownership. The slight edge women have in both regions suggests a trend towards gender balance in property possession (Figure 18 and 19).

However, the value of properties presents a contrasting picture between the capital city and the local area. In the capital city, women own the majority of property value, holding 64%, while men possess 36%. This significant difference implies that properties owned by women in the capital city are generally more valuable than those owned by men. Conversely, in the local area, men overwhelmingly dominate property value, holding 73%, with entities owning 21% and women holding only 6%. This stark contrast suggests that in local areas, men and entities possess the more valuable properties. The minimal share of property value owned by women in local areas, despite their equal quantity of ownership, points to a disparity in the economic value of properties accessible to women outside the capital city (Figure 18 and 19).

The comparative analysis highlights a significant disparity in property value ownership between the capital city and local areas. While women own more valuable properties in the capital city, men and entities dominate in local areas. This suggests that while gender equality in property ownership quantity is achieved, economic value and the quality of properties still reflect a gender gap, particularly outside urban centers.

Additionally, it is important to note that the Mongolian property valuation system is outdated, which might lead to inaccuracies in the data presented. This outdated system could result in erroneous assessments of property values, thus affecting the interpretation and subsequent actions based on this data. Improving the property valuation system is crucial to ensure accurate and reliable data, which is essential for taking effective measures towards gender responsiveness in property taxation. Addressing these systemic issues will help in creating more equitable policies and ensuring fair property tax assessments that consider gender disparities.

Figure 9. Gender distribution of properties in capital city, 2023

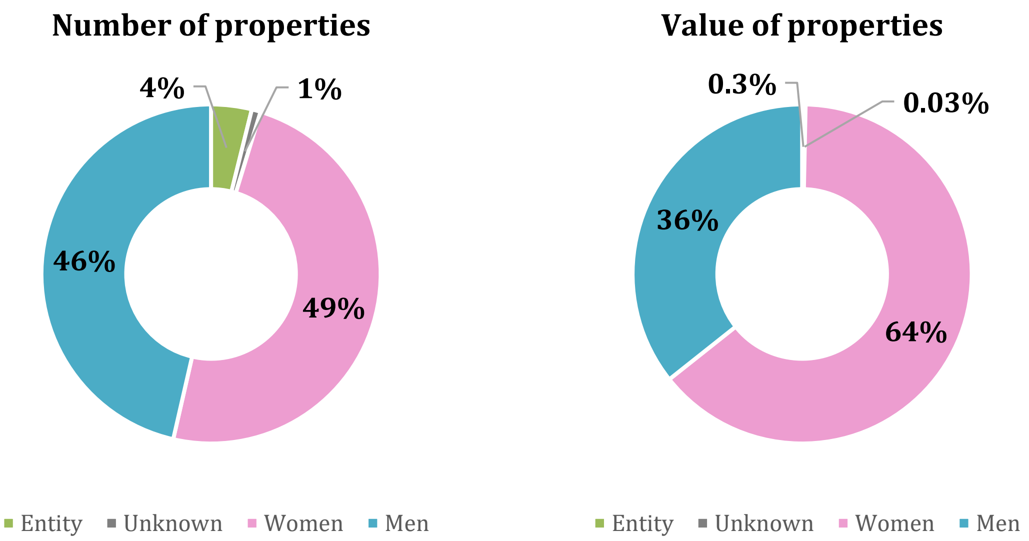
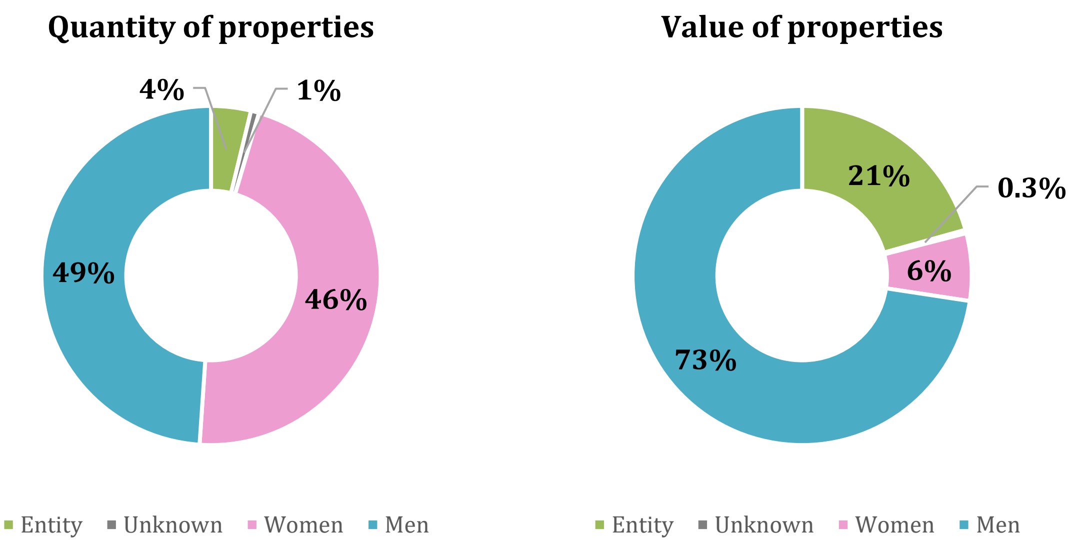


Figure 10. Gender distribution of properties in local area, 2023



While Mongolia's Civil Law has no provisions that discriminate in property ownership based on gender, and strong cultural biases against female property ownership appear less prevalent compared to other countries, economic factors likely play a more significant role in the observed gender gap.

While reforming tax laws on property to promote equal ownership for women and offering property tax relief for female-headed households and women property owners seem like promising solutions to address gender disparities, these **approaches face potential hurdles.**

<u>Building on these considerations, let's conduct a gender analysis of Mongolia's existing Property tax law design:</u>

Mongolia levies property taxes on various categories, including land, buildings (immovable property), livestock, vehicles, and firearms, as outlined in Article 7 of the General Tax Law. These taxes are typically classified as local taxes, with tax rates determined by the local Provincial Citizen Representative Councils.

Among these local taxes, land fees and immovable property taxes are significant contributors to local government budgets.

<u>Immovable property tax</u>

The Immovable Property Tax Law establishes the framework for how taxes associated with immovable property owned or used by Mongolian citizens, business entities, or organizations in Mongolia are regulated. Below is a breakdown of key aspects it governs:

Taxpayer: Article 4 of the Immovable Property Tax Law specifies the following persons as taxpayers who own immovable property in Mongolia:

- Companies, cooperatives, partnerships with all types of property, business entities with foreign investment, organizations, and their representative offices;
- Non-governmental organizations, funds, religious organizations;
- Persons with state or local property;
- Citizens of Mongolia, foreign citizens, and stateless persons;
- Non-residents of Mongolia.

Taxable immovable property: Article 3.1 of the Immovable Property Tax Law specifies that tax will be imposed on all types of immovable property described in Article 84.3 of the Civil Code of Mongolia, which includes land and assets that cannot be used for their original purpose when they are in separation with land.

Tax base: Article 5 of the Immovable Property Tax Law regulates how the value of immovable property is determined.

During initial registration or transfer of a building or structure, Mongolia's State registration agency records its market value in accordance with Article 9 of Property registration law. This information serves as the basis for taxation.

As for value of land attached with buildings or structures, the value utilized for the purpose of Land fee law *(in another words, cabinet resolution No-182 of 2018 serves as the basis for determination of value for tax purposes /**<u>see Land fee</u>**/).*

Tax rate: Article 5 of Mongolia's Immovable Property Tax Law establishes a tax rate range of 0.6% to 2%. However, the specific rate within this range is determined by local Provincial Citizens' Representative Councils by considering factors like location, designation (purpose), size, and market needs when setting the tax rate for a particular type of property.

Tax exemptions and credits: Article 7 of the Immovable Property Tax Law specifies the following immovable properties that shall be exempt from the immovable property tax:

- Immovable property of legal entities financed by central and local budgets;
- Apartment owned by citizens and legal entities in aimag and soum, and two apartments in the capital city;
- Buildings of public use;
- Buildings and facilities built and registered in the free-trade zone;
- Buildings and facilities registered in the special zone of the capital city.

Initial analysis suggests no significant disparity in property ownership rates between genders. However, a more comprehensive study, considering factors beyond ownership, is necessary to fully understand the gender gap in property-related economic benefits. Prioritizing this research may not be immediate, but it's essential for long-term policy development.

Box 18. Key points

1. Progressive Taxation on Employment Income:

Recommendation: Policymakers should explore policy alternatives to provide advantages for families with multiple children and single parents, thereby reducing the gender inequality. This can further balance caregiving responsibilities and support continuous female labor force participation.

Justification: Women often earn less than men, and a more gender specific tax measures would ensure a fairer distribution of the tax burden.

2. Gender Neutrality in Other PIT Categories:

Observation: While Mongolia uses a hybrid PIT system, the taxation of income types beyond employment seems relatively gender-neutral.

Recommendation: Maintain the current design for these categories unless a clear gender bias emerges in the future. However, continued monitoring is crucial.

3. Gender-Balanced Corporate Tax Incentives:

Concern: Corporate Income Tax (CIT) incentives might unintentionally favor companies with male ownership or leadership.

Future action: Policymakers should review the beneficiaries of these incentives and assess their impact on gender equality. Analyze factors like company ownership structure and board composition.

4. Gender inequality in VAT:

Challenge: While using varying VAT rates for different goods and services could address gendered consumption patterns, it might create administrative complexities and potentially distort markets.

Recommendation: The government should explore alternative policy options that promote gender equality without resorting to a complex multi-rate VAT system. This could include measures:

- **VAT threshhold:** increasing the current VAT registration threshhold.
- **Targeted Subsidies:** Provide targeted subsidies for essential goods and services disproportionately consumed by women (e.g., healthcare, childcare).
- **Tax Exemptions:** Consider tax exemptions on specific goods and services that promote women's economic participation (e.g., vocational training, business start-up costs for women).

5.Property taxes:

Challenge: The valuation of immovable property does not appear to closely correlated to the market value. Although the data suggests that the gender gap remains to be low and favors the women more, it should be further studied.

Recommendation: To achieve greater wealth equality, policymakers should prioritize comprehensive tax reform on immovable property, ensuring valuations accurately reflect market value. Subsequently, they should investigate the potential impact of taxing high wealth individuals and their property at higher rates, carefully considering any potential gender-related implications.

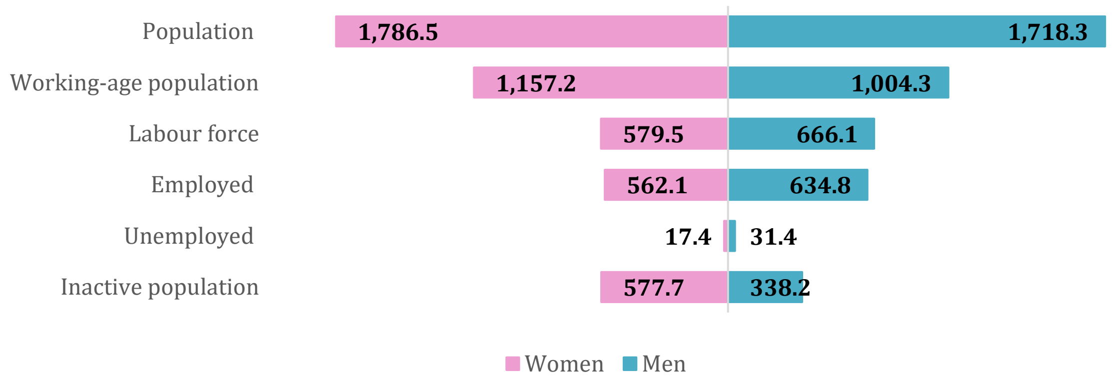
3.3.GENDER EQUALITY IN LABOR MARKET

In the Global Gender Gap Report 2023, Mongolia ranks 80th out of 146 countries, with an overall score of 0.738, reflecting moderate gender equality and a drop of 10 ranks compared to 2022. The country ranks 33rd in Economic Participation and Opportunity with a score of 0.745, indicating relatively high female labor force participation but ongoing issues with wage gaps and underrepresentation in senior roles. In Educational Attainment and Health and Survival, Mongolia shows near-parity. However, Political Empowerment remains a significant challenge, with Mongolia ranking 121st, highlighting the low representation of women in political positions. Despite progress in education and health, efforts are needed to enhance economic and political gender equality (WEF, 2023).

The Gender Inequality Index (GII) from the Human Development Report 2023-24 ranks Mongolia 72nd out of 193 countries, with a GII score of 0.297 in 2022. The index measures gender-based disadvantages across reproductive health, empowerment, and labor market participation. Mongolia shows significant educational attainment, with more women (79.3%) than men (73.0%) achieving at least secondary education. However, labor force participation rates highlight ongoing issues, with 53.5% of women participating in the labor force compared to 68.4% of men. This disparity underscores the persistent challenges in achieving gender equality in labor market participation, where women continue to face barriers and underrepresentation (UNDP, 2023).

Mongolia's working-age population comprises 2,161,634 individuals, with 55.4% employed and 42.4% outside the labor force. Notably, Mongolia has more female working-age population than male, but 47% of those employed and 63.1% of those outside the labor force are women, underscoring the significant impact of traditional gender roles and caregiving responsibilities. This gender disparity suggests that many women are unable to participate in the labor market due to lack of support for balancing work and family duties (Figure 4).

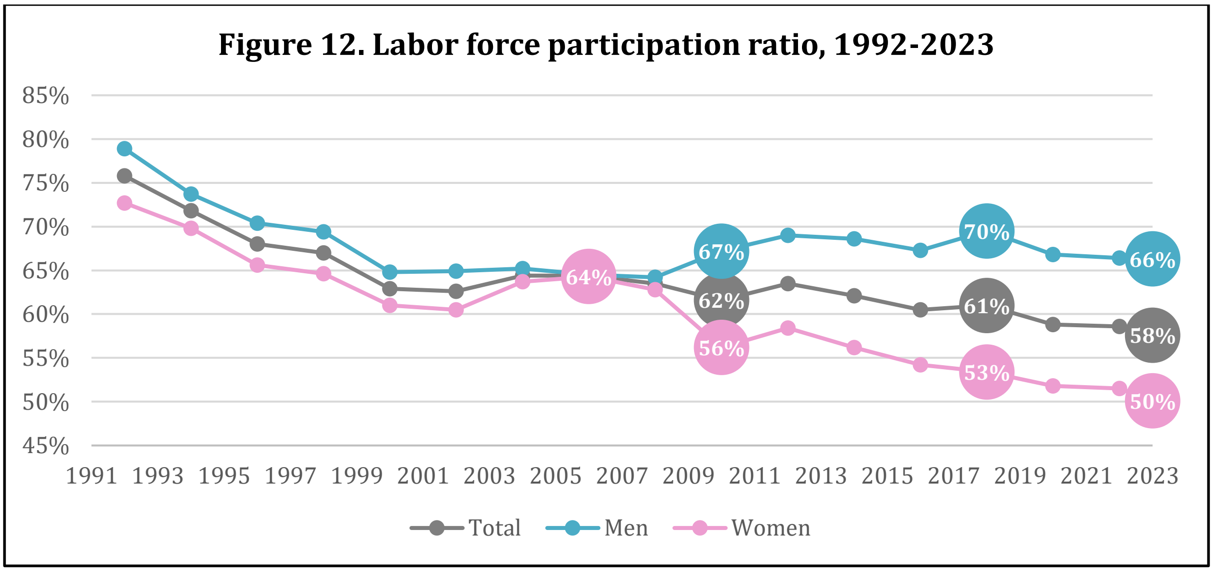
Figure 11. Structure of working-age population, 2023
(in thousand)



The labor force participation ratio in Mongolia has seen a significant decline from 1992 to 2023, with the rate dropping from 76% to 58%. The primary reason for this decline is the economic transition and structural changes. In the early 1990s, Mongolia shifted from a centrally planned economy to a market-oriented one. This transition involved the privatization of many state-owned enterprises and extensive economic restructuring, which led to significant job losses and a period of economic instability.

Although men consistently show higher participation rates than women, both genders reached the same participation rate of around 64% in 2006, which has continuously decreased since then. This decrease is more pronounced among women, indicating persistent barriers to their full economic participation. Men's participation has dropped from 79% to 66%, while women's participation has decreased from 73% to 50%. Until 2008, the gender gap in the labor force participation ratio was around 4% on average, but it significantly increased from 2009, reaching the largest gap of 16% in 2023. This trend highlights economic and policy challenges that discourage labor market engagement, particularly among women (Figure 5).

Mongolia, a mining country, has seen significant economic impacts from its mining sector, particularly since the signing of the Mongolian mining investment contract with Rio Tinto in 2009 concerning the Oyu Tolgoi project. While this project has boosted economic growth and created jobs, it has also introduced volatility and sectoral imbalances. The benefits of the mining boom have not been evenly distributed, contributing to the widening gender gap in labor force participation since it is men-dominated sector. Without significant interventions, it is unlikely that the labor force participation rates will return to the equal levels seen in 2006, perpetuating existing gender disparities.

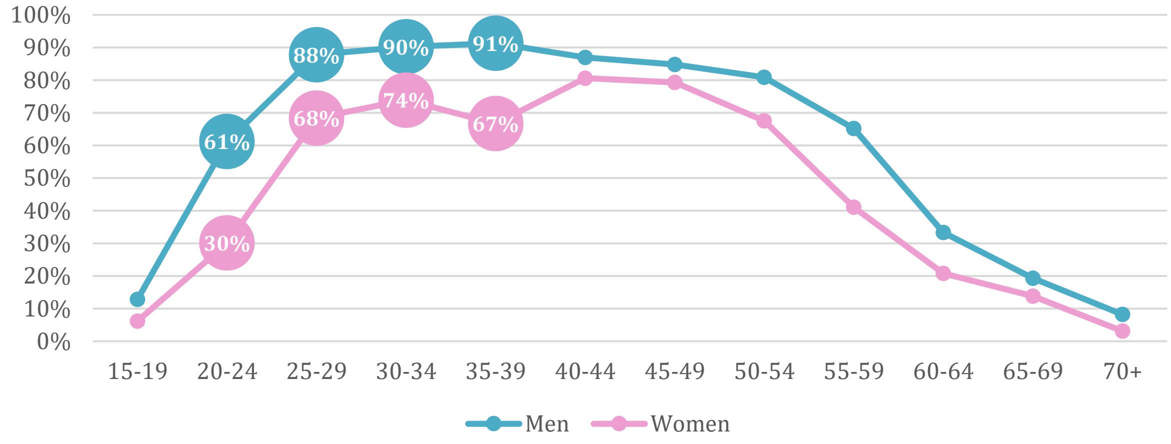


In 2023, labor force participation rates reveal significant gender disparities across different age groups. For instance, men aged 20-24 have a participation rate of 61%, compared to just 30% for women, highlighting the largest gender gap of 31%. Moreover, men aged 35-39 have the highest participation rate of 91% across their working-age range, while the highest rate for women is 81%, seen in the 40-44 age group (Figure 6).

The lowest labor force participation rates for women occur between the ages of 20 and 39, underscoring the significant impact of unpaid care work related to childbirth and caregiving responsibilities. These duties often lead to women exiting the labor force and facing difficulties when attempting to re-enter. This phenomenon highlights a critical link between unpaid care and taxation and its impact on gender equality. Policies aimed at supporting continuous female labor force participation, such as parental leave and flexible work arrangements, are essential to mitigating these age-related disparities and enhancing women's economic contributions.

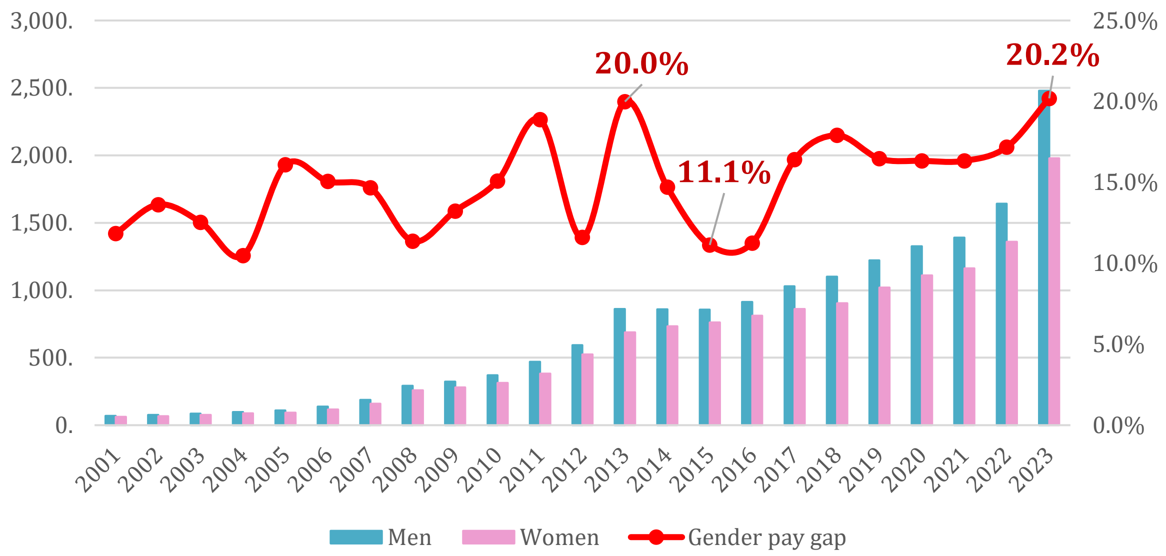
Moreover, introducing gender-responsive tax measures that provide deductions or credits for childcare and eldercare expenses is crucial. These measures would acknowledge and compensate for the unpaid care work that disproportionately falls on women, helping to alleviate the financial burden and incentivize their continued employment. By addressing the unique challenges women face during their prime working years, such tax policies would enhance their employment rates across all age groups, fostering greater gender equality in the labor market.

Figure 13. Labor force participation ratio, by age, 2023



In addition, consistently higher labor force participation and employment rates, men have continuously earned more than women over the years. Monthly average salaries from 2001 to 2023 highlight a persistent gender pay gap in Mongolia. In 2023, men earned an average of 2,479.8 thousand MNT, while women earned 1,979.1 thousand MNT, resulting in a pay gap of 20.2%. Although there has been overall wage growth for both genders, the gap fluctuates, peaking at around 20% in both 2012 and 2023. On average, women have earned 15% less than men since 2001, with the largest pay gap of 20.2% recorded in 2023 (Figure 9).

Figure 14. Monthly average salary, 2001-2023, (in thousand MNT)



Box 19. Gender disparities in labor market

Mongolia faces significant gender disparities in labor force participation and wages. In 2023, the labor force participation rate for women dropped to 50%, with a gender gap of 16%. Additionally, the gender pay gap persists, with men earning 20.2% more than women. These issues underscore the challenges women face in balancing work and family *responsibilities, highlighting the need for targeted tax policies to support women's economic participation.*

Addressing these challenges requires thoughtful policy interventions that alleviate the financial burdens associated with caregiving responsibilities, which disproportionately fall on women. Introducing tax credits based on the number of children and marital status on employment income within the PIT system can be an effective measure. Such policies would help offset the costs of childcare and eldercare, making it easier for women to maintain continuous employment and reduce the economic impact of caregiving responsibilities. These tax credits can also support women's labor market re-entry after childbirth, promoting greater workforce participation and economic stability for families.

International experiences demonstrate the effectiveness of similar measures. For instance, Sweden's extensive parental leave policies and tax benefits for families have significantly supported women's employment (European Commission, 2017). Canada's tax credits for childcare expenses have promoted greater workforce participation among women (Government of Canada, 2020). The United Kingdom's mandatory gender pay gap reporting has increased awareness and driven action towards pay equity (UK Government Equalities Office, 2019). By adopting similar policies, Mongolia can address the financial inequities faced by women, promote gender equality, and foster a more inclusive labor market. Implementing tax credits for the number of children and marital status will support women's career advancement and financial stability, ensuring they can contribute more effectively to the economy.

3.4.SOCIAL WELFARE POLICY

Mongolia took a significant step towards social welfare with the enactment of its first independent Law on Social Welfare in 1995. This legislation aimed to extend support to citizens facing social challenges. Since then, Mongolia has continuously enhanced its social welfare framework through various legislative measures.

The primary legislation governing social welfare in Mongolia is the Social Welfare Law of 2012. This law regulates various aspects of social welfare, including the determination of the types and scope of social welfare pensions, allowances, and services. It also establishes the creation and management of a social welfare fund, outlines the procedures for allocating and spending the fund's assets, and sets the framework for providing social welfare and social development services. Additionally, the law defines the organizational structure and functions of social welfare institutions, ensuring a comprehensive and systematic approach to social welfare administration in Mongolia.

There are other laws enables the SWPs for different groups such as mothers, elders and persons with disabilities (PWDs). Law on Encouragement of Mother with Multiple Children (2010) incentivizes mothers with multiple children, while Law on Rights of Persons with Disabilities (2016) includes specific provisions such as Benefits and subsidies from Social welfare fund for the PWDs.

In 2017, Mongolia enacted significant amendments to the Elder Law and the Law on Government Allowances and Benefits to Distinguished Elders. These amendments introduced substantial social welfare benefits for both elderly citizens and distinguished elders, enhancing their financial support and access to essential services. The revised laws reflect Mongolia's commitment to improving the quality of life and ensuring the well-being of its senior population through comprehensive social welfare measures.

Additionally, the Law on Allowances for Parents and Single Parents with Multiple Children, adopted in 2017, regulates the provision of allowances to various groups. These include pregnant mothers, parents taking care of children between the ages of 0 and 3, parents with twins up to the age of 4, and single parents with three or more children. This legislation aims to provide financial support and alleviate the economic burden on families with young and multiple children, reflecting Mongolia's commitment to supporting family welfare and promoting child development.

Under the Social Welfare Law, Mongolia's SWPs divided into four categories:

- **Social Welfare Pensions:** These pensions provide essential financial support to specific groups, including elderly citizens with limited retirement benefits, individuals with dwarfism, persons with disabilities (PWDs), orphaned children, and single parents with multiple children. This ensures that the most vulnerable segments of society have a safety net.
- **Social Welfare Allowances:** This category offers various forms of financial assistance tailored to meet the needs of different groups. It includes child money, various allowances for mothers, care allowances for elders and PWDs, and emergency support for families facing urgent needs. These allowances aim to mitigate economic hardships and promote social equity.
- **Social Welfare Services:** These programs provide crucial support through both community-based and specialized care services. Community services include counseling and rehabilitation for vulnerable populations such as the elderly, disabled individuals, at-risk children, victims of violence, and ex-prisoners. Specialized care addresses the specific needs of the elderly, disabled individuals, children under 18, and families with triplets or more, ensuring comprehensive support for those in critical situations.
- **Social Development Services:** Focused on long-term well-being, this category provides education, healthcare, and nutritional support to citizens and families in need of social assistance. These services aim to enhance the quality of life and promote sustainable development within the community.

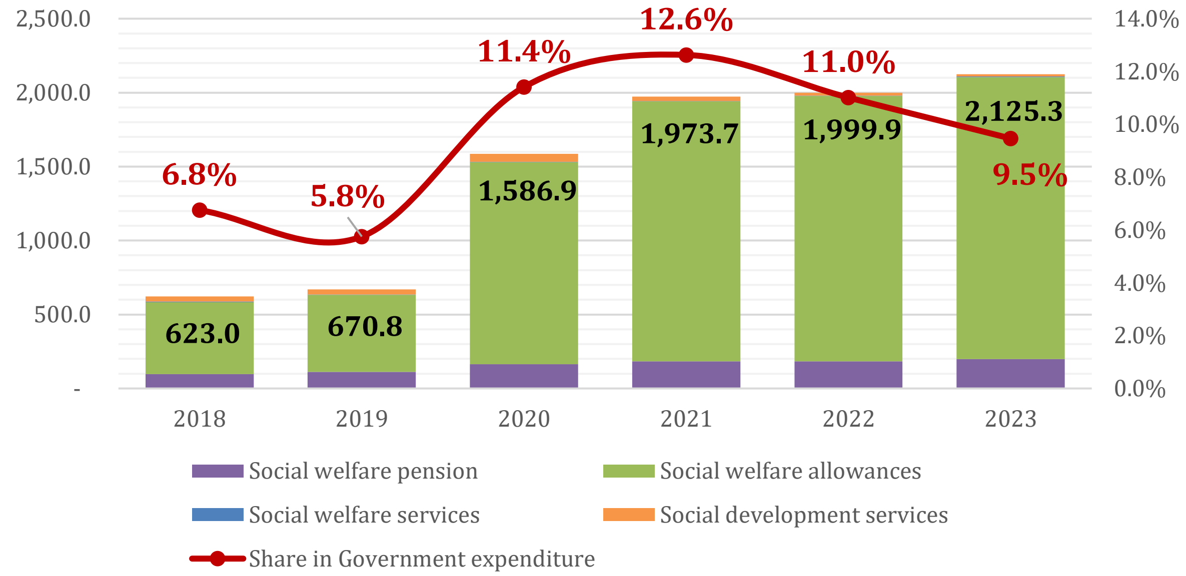
Within the framework of the aforementioned six laws regulating SWPs, Mongolia has developed a comprehensive system comprising over 70 SWPs aimed at benefiting children, mothers, elders, PWDs, and other individuals in need. It is important to note that these SWPs are administered by the social welfare system, which operates independently from the tax system and does not require individuals to be active taxpayers or filers to receive benefits.

As of 2023, 64 of these programs are active, covering nearly 2.7 million beneficiaries (in repeated counts) and costing the government 2.1 trillion MNT annually. This substantial investment underscores Mongolia's commitment to social support; however, it also highlights critical concerns regarding the sustainability and efficiency of managing such an extensive and costly array of programs. The financial burden on the government budget is significant, raising questions about the long-term viability of maintaining these programs.

The Global Social Protection Report 2020-2022 by the International Labour Organization (ILO) provides a comprehensive overview of social security trends worldwide, highlighting critical insights into global social protection systems. According to the report, nearly half (46.9%) of the global population benefits from social security programs, with social security spending accounting for 12.9% of global GDP. Notably, the report indicates that Mongolia has higher social security spending compared to countries with similar income levels and those in its region. This observation underscores Mongolia's substantial investment in SWPs, reflecting its strong commitment to supporting its vulnerable populations. However, it also raises important questions about the sustainability and efficiency of such high expenditure levels (ILO, 2022).

Mongolia's SWP expenditures have significantly increased from 2018 to 2023. Notable rises are observed across most categories, with social welfare allowances increasing from 485.1 billion MNT in 2018 to 1,906.9 billion MNT in 2023. Social welfare allowances constitute the largest share of total SPW expenditures, reaching 90% in 2023. Within this category, the Child Money Program has the most substantial share. Initially, the Child Money Program accounted for 34% of total social welfare expenditures between 2018 and 2019 when the monthly allowance was 20,000 MNT per child. However, in 2020, the Mongolian government increased the amount to 100,000 MNT per child, causing a significant spike in social welfare expenditures and resulting in an average share of 11% of the annual budget since then. While it appears that the budget share of social welfare expenditures is decreasing since the record high year of 2021, this is primarily due to a significant increase in overall government expenditure in 2022 and 2023 (Figure 10).

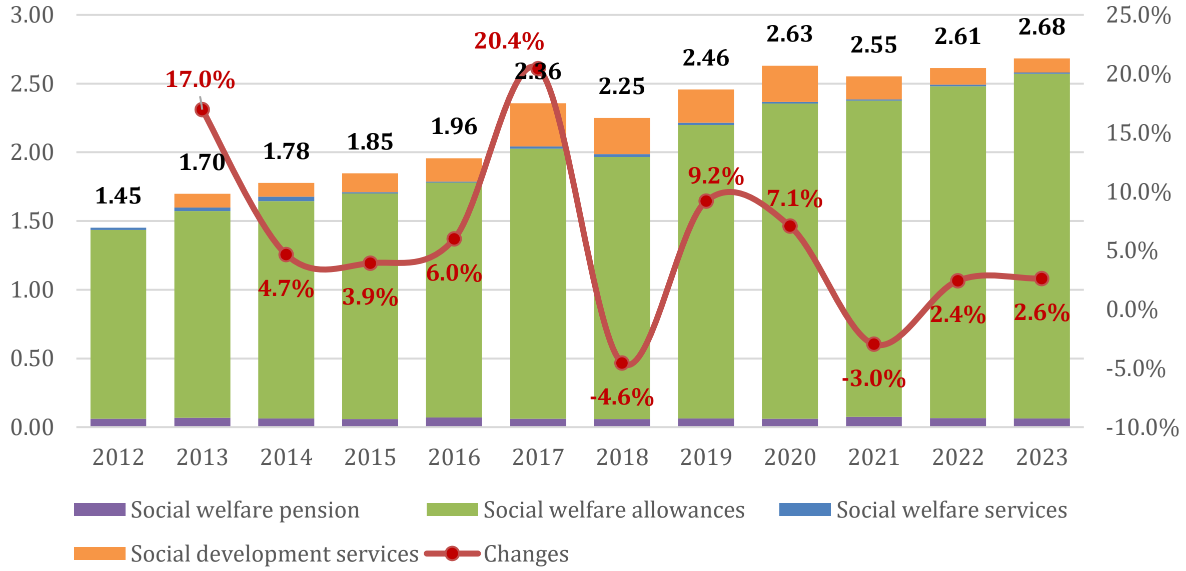
Figure 15. Social welfare program expenditure, 2018-2023, *(in billion MNT)*



The number of beneficiaries of various SWPs has dramatically increased over the last decade. In 2023, the number of beneficiaries nearly doubled compared to 2012, reaching approximately 2.7 million. The most significant increase occurred in 2017, with a 20.4% rise in beneficiaries. This surge was primarily due to the adoption of the Law on Allowances for Parents and Single Parents with Multiple Children, as well as amendments to the Elder Law and the Law on Government Allowances and Benefits to Distinguished

Elders, which introduced numerous allowances for elders, children, and mothers. Social welfare allowances consistently account for the majority of total beneficiaries, averaging around 90%, while the Child Money Program has maintained a steady share of around 50% through the years (Figure 11).

Figure 16. Beneficiaries of social welfare program, 2012-2023, (in million)



Mongolia's social welfare programs specifically targeted at mothers, single parents, children, and care providers comprise 14 out of the 64 active programs as of 2023. Despite their limited number, these programs account for a significant portion of the social welfare expenditure and beneficiaries. They represent 87% of the total social welfare expenditure and cover 71% of all beneficiaries. Notably, these programs alone consume 8% of the entire government budget, whereas all social welfare programs collectively account for 9.5% of government expenditure. The Child Money Program stands out, consuming 72% of the total social welfare expenditure and 7% of the government budget (Table 1).

The extensive focus and funding on social programs targeted at mothers and children, while essential for immediate support, may inadvertently disincentivize mothers from participating in the labor market. Research and international experiences, such as those from European countries with generous child and maternal benefits, suggest that while these benefits provide crucial support, they can also lead to reduced labor force participation among women (Elson, 2006) . This can perpetuate dependency on social programs and limit economic opportunities for women. Moreover, such extensive financial commitment raises sustainability concerns and potential budgetary constraints (ILO, 2022).

Implementing GRT in the PIT system is crucial to address these issues. Integrating tax credits based on the number of children and marital status can support working mothers, helping to balance caregiving responsibilities with employment. The EITC in the United States is a successful example of this approach. The EITC provides income support while incentivizing labor force participation, significantly reducing poverty rates among low-income working families and promoting economic mobility (Nichols & Rothstein, 2016). By adopting similar measures, Mongolia can encourage greater workforce participation among women, reduce dependency on social welfare programs, and foster a more equitable and sustainable economic environment (Bierbrauer et al., 2023).

Table 1. Social welfare programs, by beneficiaries

№	Social welfare programs	Frequency	Amount (in MNT)	Beneficiaries	Number of Beneficiaries, 2023 (in thousand)	Government expenditure, 2023 (in billion MNT)
1	Child money	Monthly	100,000	Children	1,305.3	1,520.1
2	Allowances for twins	Once	1,000,000 per twin, 3,000,000 per triplet	Children	0.7	1.5
3	Pension for child whose caretaker died	Monthly	375,000 for 1-2 children, 562.500 for 3-4 children, 750,000 for more than 5 children	Children	16.5	57.8
4	Allowance for a child up to 16, who needs constant care	Monthly	375,000	Children	n/a	n/a
5	Allowance for mother who has the Order of Glorious Mother	Yearly	100,000 for 2nd Order, 200,000 for 1st Order	Mothers	252.7	31.5
6	Allowance for pregnant mother	Monthly /from the 5th month/	40,000	Mothers	73.8	10.1
7	Allowance for mother who takes care of her child up to 0-3	Monthly	50,000	Mothers	184.8	77.9
8	Allowance for single parent with 3 or more children	Quarterly	660,000	Single parents	8.5	16.3
9	Pension for single mother above 45, or single father above 50, with 4 or more children	Monthly	375,000	Single parents	0.0	0.0
10	Allowance for a homeless single parent with 4 or more children	Once	1,200,000	Single parents	n/a	n/a
11	Care allowance for a person who adopted	Monthly	375,000	Care providers	2.1	4.8

	full orphan child, or takes care of child in risky conditions					
12	Care allowance for a person who takes care of child who are in need of protection due to violence	Monthly	375,000	Care providers	0.2	0.5
13	Care allowance for a person who takes care of a single elder and single PWD	Monthly	375,000	Care providers	0.2	0.3
14	Care allowance for a person who takes care of an elder and PWD who are in the medical supervision	Monthly	375,000	Care providers	67.5	119.6
	TOTAL				**1,912.3**	**1,840.5**

IV. QUANTITATIVE TAX ANALYSIS ON EMPLOYMENT INCOME

4.1. DATA

In this research, we utilized aggregated data from 2023 on Personal Income Tax (PIT), provided by the General Tax Authority (GTA). The PIT data includes details on various income streams such as:

- **Income from employment:** salaries and wages
- **Income from assets:** dividends and interest
- **Income from individual businesses**

In addition to the PIT data, we obtained comprehensive demographic information from the State Registration Office. This demographic data is crucial for disaggregating the tax return information by gender and understanding how the tax system impacts different population segments. The demographic data includes:

- Individual's gender identity
- Marital status
- Household composition: number of children and dependents

To achieve a comprehensive analysis, we merged the data from the GTA with the demographic information from the State Registration Office. This integration allows us to explore various aspects, such as gender disparities in income and wealth, the impact of tax policies on different groups, and household dynamics in relation to the tax burden. By combining these data sources, we can provide a more detailed and nuanced understanding of how the tax system affects different segments of the population.

It is important to acknowledge that there are some data errors present in our dataset. These errors include incorrect identification numbers and discrepancies arising from individuals not registering their divorce with the State Registration Office. Such issues can lead to inaccuracies in the demographic information, potentially affecting the precision of our analysis.

Despite these challenges, the combined dataset offers valuable insights into the gender and family dynamics influencing the tax system in Mongolia.

4.2. METHODOLOGY

This assessment employs a micro-level analysis approach, utilizing disaggregation techniques to analyze individual annual tax return data from the General Tax Authority (GTA) based on specific characteristics such as gender, marital status, household composition, and income sources.

By focusing on disaggregated data rather than aggregate national figures, this method provides a granular understanding of how tax policies affect different segments of the population. This detailed analysis reveals potential inequities and allows for the formulation of targeted and effective policy recommendations, particularly aimed at promoting gender equality through tax reforms.

4.3. ANALYSIS

This analysis is based on data from the 2023 year-end personal income tax return, a summary of individual filings.

Key figures:

- Total tax returns filed for Employment Income: **909,845 individuals**
- Minimum Wage Threshold: **MNT 6,600,000**
- Filers Excluded (Below Minimum Wage): **236,894**
- Estimated Filers Above Minimum Wage: **672,591**

First, we have summarized findings on total of **672,951 taxpayers** who have earned above the annual minimum wage:

4.3.1. Overview of employment income gap

While there is no significant gender gap in overall employment numbers, the data reveals a substantial 28.0% disparity in employment income between men and women.

Table 2. Descriptive Analysis on Employment income (Annual figure, in MNT), by gender

Indicator	Employment income (thousand MNT)		
	Men	Women	Gap
Mean (Average)	26,989.2	21,082.7	28.0%
Median	20,449.8	17,800.0	14.9%
Employment income by percentile			
25th percentile	12,000.0	11,413.0	5.1%

50th percentile	20,449.8	17,800.0	14.9%
75th percentile	31,252.1	25,226.0	23.9%
90th percentile	48,137.6	35,363.6	36.1%
Maximum	3,432,097.8	1,830,790.9	87.5%
Total employment income	9,234,274,589.2	6,966,657,607.7	32.5%
Total number of employee	342,107	330,444	3.5%

Box 20. Gender Pay Gap Among Mongolian Wage Earners

Average Annual Salary:

1. All Wage Earners: 24.08 million MNT
2. Women: 21.08 million MNT
3. Men: 26.99 million MNT
4. Gap: 28.0% (Men earn more than women)

This is likely to be caused by the following factors:

- **Mongolia's mining sector** is a crucial driver of the national economy, offering wages significantly higher than other sectors. In Q4 2023, the mining sector boasted a strong average monthly salary of 5.1 million MNT, exceeding the national average by a significant 56.4% according to the National Statistics Committee's wage survey. Furthermore, men make up the vast majority of the mining workforce, with 58.5 thousand workers (87.4%) compared to 8.4 thousand women (12.6%).
- **Women tend to be concentrated in lower-paying occupations**: Fields like education, healthcare, and social services are dominated by women, where the wages tend to be low in Mongolia. In education, while women comprise the majority of the workforce (95.3 thousand, or 78.3%), their average monthly salary (1.8 million MNT) falls short of the national average by 15.8%. In the service sector, a similar pattern emerges. Despite women making up a larger share (23.3 thousand, or 72.3%), their average salary (1.9 million MNT) remains 14.8% lower than the national benchmark.
- **Women are statistically less likely to hold higher positions than men due to family responsibilities, unconscious bias, and lack of support system:**
    - Women are more likely to take career breaks for childcare or eldercare. While the MTA data doesn't capture total working hours, it's likely that women on average work fewer hours than men due to caregiving responsibilities.

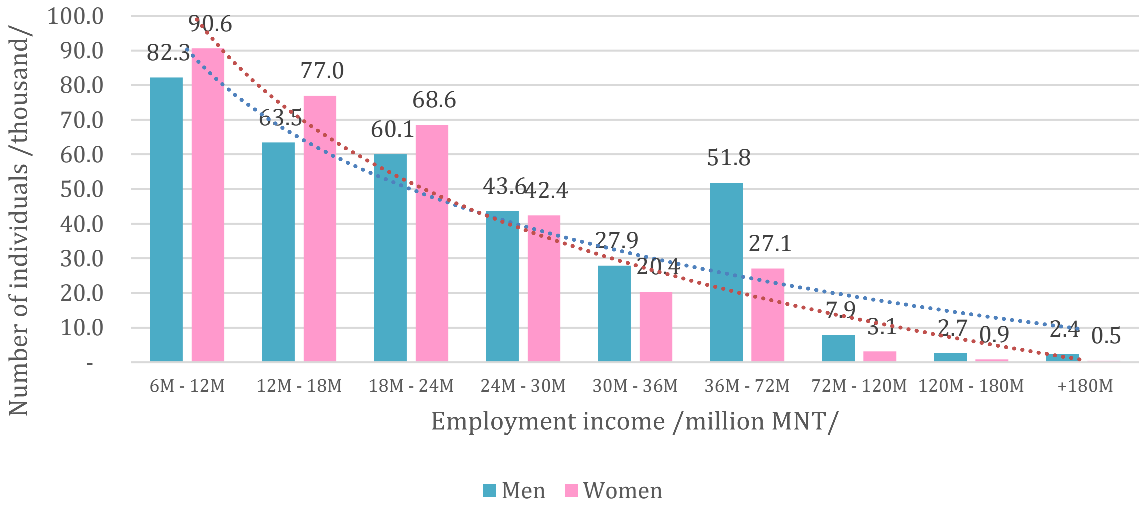
- Hiring managers and decision-makers might hold subconscious biases that favor men for promotions or higher-paying jobs. These biases can be based on stereotypes about women's capabilities or commitment to work.
- Lack of affordable childcare, parental leave policies, and flexible work arrangements can make it harder for women to stay in the workforce and advance in their careers.

4.3.2. Income Distribution by Gender

Income distribution analysis based on 2023 year-end personal income tax data reveals a potential gender gap.

- Women may hold a larger share of tax filers earning under 24 million MNT annually, suggesting a prevalence of lower-paying jobs.
- Conversely, men might be more prevalent in higher income brackets, particularly between 36 and 72 million MNT, indicating a concentration in well-paying positions.

Figure 17. Employment income distribution, by gender
(thousand individual)



Box 21. Progressive Taxation for High Earners in Mongolia: Potential Impact on Gender Inequality

Mongolia implemented a progressive income tax system in 2022 for high earners exceeding 120 million MNT annually, with the policy taking effect in 2023. The initial data shows 6,200 citizens subject to progressive tax in 2023, with 81% being men.

Policymakers should explore ways to enhance progressive taxation, including stricter enforcement of taxes on high incomes and wealth, while implementing measures like child tax credit to further address income inequality and promote gender equality.

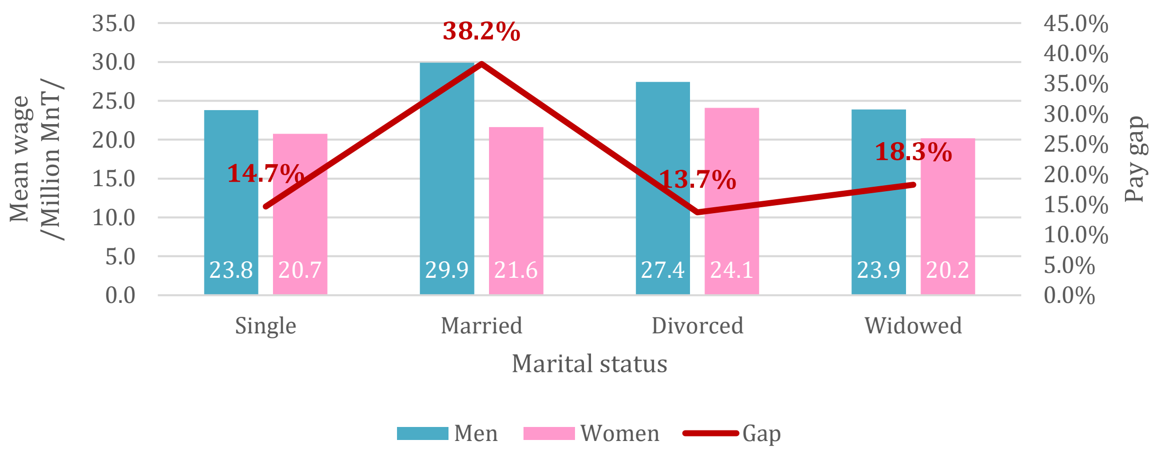
4.3.3. Gender Pay Gap and Tax Burden by Marital Status

Analysis reveals a significant gender pay gap among married couples, with married women earning considerably less (27.7%) than their male counterparts. This disparity necessitates prompt policy intervention.

Key facts:

- **Gender Pay Gap Exists:** On average, women earn 28.0% less annually than men in Mongolia.
- **Widening Gap for Married Couples:** The pay gap seems to be even larger (38.2%) for married couples, suggesting an immidiate action.

Figure 18. Mean wage by marital status and gender
(million MNT)



4.3.4. Policy proposal

We propose reforming the current PIT tax incentives to further promote gender equality and incentivize women workforce participation.

Key Challenges:

- **Unequal Burden on Single Parents:** The current system disadvantages single parents (often women) who face childcare responsibilities and potentially lower incomes. This challenge is compounded by the gender pay gap. Implementing tax credits specifically for single parents with children could alleviate financial hardship and promote a fairer tax system.
- **Unpaid Care Work:** The proposal suggests offering tax deductions or allowances for unpaid care work like childcare, eldercare, and disability care. This recognizes the economic value of these activities, often done more by women.

Proposed design:

The overall design of the changes to taxation of employment income in PIT:

1. **Eliminate the current progressive tax credit:**

We implemented a tiered system of tax credits in 2020, aligned with Article 23, Section 23.1 of the PITL. This system offers increased tax credit to low-income earners based on their salary level.

Gross annual salary subject to income tax (thousand MNT)	Amount of annual tax credit (thousand MNT)
0 - 6 000	240
6 000 - 12 000	216
12 000 - 18 000	192
18 000 - 24 000	168
24 000 - 30 000	144
30 000 - 36 000	120
Above 36 000	-

The current tiered tax credit system, based solely on salary income, might not fully address the financial needs of all low-income earners. Data from 2023 shows that while 800,000 citizens benefited from a total of 115 billion MNT, alternative approaches could be explored.

Here's a potential alternative:

Tax Credits Based on Family Composition: A system considering marital status and the number of children could potentially provide more targeted support to low-income families facing additional financial burdens.

Tax Credits: Provide a direct reduction in taxes owed, offering a more equal benefit across income levels.

Box 22. Policy design: Family coefficient system

The family coefficient considers the family situation of taxpayer to determine its ability to pay the income tax.

The following table of coefficient is proposed:

FAMILY STATUS	COEFFICIENT
SINGLE	0.0
MARRIED	1.0
SINGLE PARENT	1.5
WIDOWED	2.0

To determine your tax credit, follow these steps:

- Find the corresponding coefficient in the column of the table.
- Multiply the amount of the base tax credit by family coefficient and number of children.

NUMBER OF CHILDREN	TAX CREDIT	
	Monthly	Yearly
1ST child	50,000 MNT	600,000 MNT
2ND child	50,000 MNT	600,000 MNT
3RD child	50,000 MNT	600,000 MNT
4TH child	80,000 MNT	960,000 MNT
5TH child	80,000 MNT	960,000 MNT
6TH child and above	100,000 MNT	1,200,000 MNT

Potential outcome for policy proposal 1:

Table 3. Average Effective Tax Rate by Income Range and Gender

Range (yearly) Million MNT	Number of people (thous.)	%	All			Male			Female		
			Old ETR (%)	New ETR (%)	Red (-)	Old ETR (%)	New ETR (%)	Red (-)	Old ETR (%)	New ETR (%)	Red (-)
6-12	172.8	25.7%	6.8	3.5	**3.3**	6.8	3.5	**3.3**	6.9	3.5	**3.4**
12-18	140.4	20.9%	7.7	5.0	**2.7**	7.7	5.1	**2.6**	7.7	4.9	**2.8**
18-24	128.7	19.1%	8.2	5.9	**2.3**	8.2	6.0	**2.3**	8.1	5.8	**2.2**
24-30	86.0	12.8%	8.4	6.5	**1.9**	8.5	6.4	**2.1**	8.3	6.6	**1.7**
30-36	48.2	7.2%	8.5	6.9	**1.6**	8.5	6.7	**1.8**	8.5	7.1	**1.4**
36-72	78.9	11.7%	8.9	7.6	**1.3**	8.9	7.4	**1.5**	8.9	7.9	**1.0**
72-120	11.1	1.6%	9.2	8.4	**0.8**	9.2	8.3	**0.9**	9.2	8.7	**0.5**
120-180	3.6	0.5%	10.2	9.6	**0.6**	10.2	9.5	**0.6**	10.1	9.8	**0.4**
>180	2.9	0.4%	16.3	16.1	**0.2**	16.2	16.0	**0.2**	15.3	15.2	**0.1**
Total	**672.6**	**100%**	**7.9**	**5.5**	**2.4**	**8.0**	**5.7**	**2.4**	**7.8**	**5.3**	**2.5**

With this proposed policy change, potential tax credit system that considers both family status and the number of children shows promise in reducing the tax burden for low-income families with children.

Here's a breakdown of the potential impact:

- **Overall Reduction in effective taxation:** The average tax burden for both male and female workers could decrease by around 2-3 percentage points, with women experiencing a slightly greater reduction.
- **Targeted Support by Income:** The system appears most beneficial for low-to middle-income earners. Citizens with annual salaries between 6-18 million MNT could see reductions of up to 5%.
- **Increased Support for Larger Families:** Lower-income families with more children appear to benefit the most from this proposed tax credit system.

Table 4. Average Effective Tax Rate by Income Range and Gender (with children)

Range (yearly)		%	All (with children)	Male (with children)	Female (with children)

Million MNT	Number of people (thous.)		Old ETR (%)	New ETR (%)	Red (-)	Old ETR (%)	New ETR (%)	Red (-)	Old ETR (%)	New ETR (%)	Red (-)
6-12	155.6	24.6%	6.8	2.9	**3.9**	6.8	2.9	**3.9**	6.9	2.9	**3**
12-18	130.6	20.6%	7.7	4.7	**3.0**	7.7	4.7	**3.0**	7.7	4.6	**3.0**
18-24	122.8	19.4%	8.2	5.7	**2.5**	8.2	5.8	**2.5**	8.1	5.7	**2.4**
24-30	83.1	13.1%	8.4	6.4	**2.0**	8.5	6.3	**2.2**	8.3	3.5	**1.8**
30-36	46.8	7.4%	8.5	6.8	**1.7**	8.6	6.7	**1.9**	8.5	7.0	**1.5**
36-72	77.1	12.2%	8.9	7.5	**1.4**	8.9	7.4	**1.5**	8.9	7.9	**1.0**
72-120	10.8	1.7%	9.2	8.4	**0.8**	9.2	8.3	**0.9**	9.2	8.6	**0.6**
120-180	3.5	0.5%	10.2	9.6	**0.6**	10.2	9.5	**0.7**	10.1	9.8	**0.3**
>180	2.8	0.4%	16.3	16.1	**0.2**	16.2	15.9	**0.2**	15.3	15.2	**0.1**
Total	**633.2**	**100%**	**7.9**	**5.3**	**2.6**	**8.0**	**5.4**	**2.6**	**7.8**	**5.1**	**2.7**

Tax credits for taxpayers with children shows positive impact:

- The average tax burden for taxpayers with children has decreased to 5.3%, offering a 2.6% reduction compared to the average for all taxpayers.
- While the average tax burden for citizens with children is 5.3%, there's a minimal difference (0.2%) between male and female citizens (5.3% and 5.1%, respectively).

Table 5. Disposable Income Gap by Marital Status

Marital status	Old policy	New policy	Reduction
All	22.38%	22.24%	0.14%
Married	28.24%	28.34%	-0.11%
Divorced	12.62%	12.79%	-0.17%
Widowed	15.91%	15.44%	0.47%

- The initial data shows a concerning disposable income gap between genders, with women's disposable income 22.38% less than men on average.
- Policy proposal 1 suggests that tax benefits based on family status and the number of children could help close this gap slightly. It projects a potential reduction in the gap to 22.24%.
- This decrease seems to particularly benefit target groups facing financial hardship, such as widows with many children.

Policy Option 2:

NUMBER OF CHILDREN	TAX CREDIT	
	Monthly	Yearly
1ST child	100,000 MNT	1,200,000 MNT
2ND child	100,000 MNT	1,200,000 MNT
3RD child	100,000 MNT	1,200,000 MNT
4TH child	100,000 MNT	1,200,000 MNT
5TH child	100,000 MNT	1,200,000 MNT
6TH child and above	100,000 MNT	1,200,000 MNT

Table 6. Average Effective Tax Rate by Income Range and Gender

Range (yearly) Million MNT	Number of people (thous.)	%	All			Male			Female		
			Old ETR (%)	New ETR (%)	Red (-)	Old (%)	New (%)	(-)	Old ETR (%)	New ETR (%)	Red (-)
6-12	172.8	25.7%	6.8	2.0	**4.8**	6.8	2.0	**4.8**	6.9	2.0	**4.9**
12-18	140.4	20.9%	7.7	2.5	**5.2**	7.7	2.6	**5.1**	7.7	2.5	**5.2**
18-24	128.7	19.1%	8.2	3.5	**4.7**	8.2	3.5	**4.7**	8.1	3.5	**4.6**
24-30	86.0	12.8%	8.4	4.3	**4.1**	8.5	4.1	**4.4**	8.3	4.4	**3.9**
30-36	48.2	7.2%	8.5	4.9	**3.6**	8.5	4.7	**3.9**	8.5	5.2	**3.3**
36-72	78.9	11.7%	8.9	6.2	**2.7**	8.9	5.9	**3.0**	8.9	6.7	**2.1**
72-120	11.1	1.6%	9.2	7.6	**1.6**	9.2	7.4	**1.8**	9.2	8.0	**1.2**
120-180	3.6	0.5%	10.2	9.0	**1.2**	10.2	9.0	**1.2**	10.2	9.0	**1.2**
>180	2.9	0.4%	16.3	12.4	**3.9**	16.2	15.8	**0.4**	16.3	12.4	**3.9**
Total	**672.6**	**100%**	**7.9**	**3.5**	**4.4**	**8.0**	**3.7**	**4.4**	**7.8**	**3.4**	**4.4**

Tax credits for children significantly reduces tax burden for taxpayers

A tax credit of 100,000 MNT per child based on family status and the number of children shows significant promise in reducing the average tax burden. Here's a breakdown of the potential impact:

Overall Reduction: The average tax burden is projected to decrease from 7.9% to a much lower 3.5%.

Gender Parity: Both male and female workers benefit, with average tax burdens dropping to 3.7% and 3.4%, respectively.

Targeted Support by Income: Lower-income earners see the greatest benefit. Tax burdens could be reduced to:

- 2.0% for those earning 6-12 million MNT annually
- 2.5% for those earning 12-18 million MNT annually
- 3.5% for those earning 18-24 million MNT annually

Table 7. Average Effective Tax Rate by Income Range and Gender

Range (yearly) Million MNT	Number of people (thous.)	%	All (with children)			Male (with children)			Female (with children)		
			Old ETR (%)	New ETR (%)	Red (-)	Old (%)	New (%)	(-)	Old ETR (%)	New ETR (%)	Red (-)
6-12	155.6	24.6%	6.8	1.2	**5.6**	6.8	1.1	**5.7**	6.9	1.3	**5.6**
12-18	130.6	20.6%	7.7	2.1	**5.6**	7.7	2.0	**5.7**	7.7	2.1	**5.6**
18-24	122.8	19.4%	8.2	3.2	**5.0**	8.2	3.2	**5.0**	8.1	3.3	**4.8**
24-30	83.1	13.1%	8.4	4.1	**4.3**	8.5	3.9	**4.6**	8.3	4.3	**4.0**
30-36	46.8	7.4%	8.5	4.8	**3.7**	8.6	4.5	**4.1**	8.5	5.2	**3.3**
36-72	77.1	12.2%	8.9	6.1	**2.8**	8.9	5.9	**3.0**	8.9	6.7	**2.2**
72-120	10.8	1.7%	9.2	7.6	**1.6**	9.2	7.4	**1.8**	9.2	8.0	**1.2**
120-180	3.5	0.5%	10.2	9.0	**1.2**	10.2	8.9	**1.3**	10.1	9.3	**0.8**

>180	2.8	0.4%	16.3	15.4	**0.9**	16.2	15.2	**1.0**	15.3	14.3	**1.0**
Total	**633.2**	**100%**	**7.9**	**3.2**	**4.7**	**8.0**	**3.3**	**4.7**	**7.8**	**3.1**	**4.7**

A tax credit of 100,000 MNT per child based on family status and the number of children shows significant promise in reducing the average tax burden. Here's a breakdown of the potential impact:

Overall Reduction: The average tax burden is projected to decrease from 7.9% to a new lower rate of 3.2%.

Gender Parity: Both male and female workers benefit, with average tax burdens dropping to male percentage 3.3% and female percentage 3.1%, respectively.

Targeted Support by Income: Lower-income earners see the greatest benefit, with tax burdens potentially reduced to:

- 1.2% for those earning 6-12 million MNT annually
- 2.1% for those earning 12-18 million MNT annually
- 3.2% for those earning 18-24 million MNT annually

Importantly, the system is most supportive of low-income families with children, offering them the highest percentage reduction in their tax burden.

Table 8. Disposable Income Gap by Marital Status

Marital status	Old policy	New policy	Reduction
All	22.38%	22.15%	0.23%
Married	28.24%	28.28%	-0.04%
Single parent	12.62%	12.80%	-0.18%
Widowed	15.91%	15.43%	0.48%

- The initial data shows a concerning disposable income gap between genders, with women's disposable income 22.38% less than men on average.
- Policy proposal 2 suggests that tax benefits based on family status and the number of children could help close this gap slightly. It projects a potential reduction in the gap to 22.15%.
- This decrease seems to particularly benefit target groups facing financial hardship, such as widows with many children.

<u>Pros & Cons:</u>

<u>Pros:</u>

- **Reduced Tax Burden for Low-Income Families with Children:** This system directly targets support to families most likely to need it, potentially lifting them out of poverty or easing financial strain.
- **Increased Disposable Income:** By lowering taxes, families have more money available for basic necessities, healthcare, education, and childcare, potentially improving overall well-being.

- **Work Incentive for Single Parents:** Tax credit can make work a more financially viable option for single parents, encouraging them to join or remain in the workforce.
- **Greater Support for Larger Families:** The system can be designed to provide progressively more support for families with more children, recognizing the increased financial strain they face.
- **Potential Boost to the Economy:** Increased disposable income can lead to higher consumer spending, stimulating economic activity.

Cons:

- **Cost to the Government:** Implementing the program requires allocating additional funds.
- **Administrative Complexity:** Designing, implementing, and monitoring the program can be administratively burdensome, requiring resources and personnel.
- **Potential for Fraud:** There's a risk of individuals misrepresenting their family status or number of children to claim benefits they don't qualify for.
- **Inequity Concerns:** The effectiveness of the program might depend on how well it's targeted. If not designed carefully, it might not reach the families most in need or could disproportionately benefit higher-income families with more children.

V. TAX POLICY RECOMMENDATION

Mongolia faces significant gender disparities in economic participation and income distribution. To address these challenges and promote gender equality, it is essential to implement gender-responsive tax reforms.

These reforms will help to alleviate financial burdens on women, support their labor force participation, and ensure a more equitable distribution of resources. By adopting these recommendations, Mongolia can create a more inclusive and sustainable economic environment.

We recommend the following policy actions numbered in accordance with priority:

1. Enhance Progressive Personal Income Tax (PIT) System:

- To eliminate **the current progressive tax credit on income from employment** and consider more gender responsive tax incentives such as **"child tax credit"** (as explained in the previous sections). This will have the following positive effect:
  - This policy directly benefits families with multiple children, reducing the financial burden and providing greater support.
  - By providing additional financial assistance, child tax credits can help single parents, predominantly women, maintain a higher standard of living.
  - With increased financial support, women might be more inclined to re-enter the workforce or maintain their employment, promoting a more equitable distribution of caregiving responsibilities.
- Explore future possibilities for allowing deductions on eldercare and disability expenses to alleviate the financial burden on working mothers.

2.Address Property Ownership Disparities through Property Tax Reforms:

- Make policy improvements on valuation of immovable property to ensure a fairer tax system for all.
- Explore potential legal reforms to ensure that the taxation of high wealth individuals and their property is taxed at a higher rate.
- This can further reduce gender wealth gap.

3.Make sure that the current CIT incentives are gender responsive:

- Conclude a comprehensive analysis on the beneficiaries of the current tax incentives based on gender. In doing so, the data collected should be further improved and should include elements of gender.
- Explore possibilities for future tax incentives for businesses operating in female-dominated industries based on the comprehensive analysis.

4. Reform Value-Added Tax (VAT) Policies:

- Consider the regressive impact of consumption taxes on lower-income households, particularly women.
- Exempting or zero-rating essential goods such as menstrual products, basic groceries, and children's clothing can help alleviate the financial burden on

women. However, this **should be carefully considered** because it may have limited effect.

- Consider other alternative approaches to VAT. For instance, increasing the current VAT threshold could benefit the women running small businesses.

5. Improve Data Collection and Analysis:

- Creating sex-disaggregated data within the General Tax Authority, Customs General Administration, and the Ministry of Finance is essential for informed policymaking. This should incorporate:
  - **Data Collection:** Systematically collecting data on taxpayers' gender across all relevant tax forms and databases.
  - **Data Classification:** Categorizing taxpayers by gender to enable analysis of tax burdens, revenue generation, and compliance patterns.
  - **Data Analysis:** Utilizing statistical methods to identify gender-based disparities in tax outcomes and policy impacts.
  - **Data Sharing:** Establishing secure data-sharing protocols between the three agencies to ensure a comprehensive understanding of the tax landscape.

6.Continued improvement on tax services:

- Introduce gender-responsive revenue administration measures, including gender-sensitive enforcement and compliance mechanisms through the Gender Equality Seal Program.
- Ensure full implementation of the Seal in the GTA.

6. Enhance Public Awareness and Engagement:

- Raise public awareness about the importance of gender-responsive taxation and actively engage women in tax policymaking processes. Educational campaigns, workshops, and public consultations can ensure that the perspectives and needs of women are considered in tax policy decisions.
- Strengthen partnerships with women's NGOs specializing in economic empowerment.
- To fully embed gender equality principles, the Ministry of Finance should implement the Gender Equality Seal Program across its entire organization, including all subordinate agencies.

Implementation Timeline:

- **Short-term (2024-2025):** Prioritize PIT reforms, data collection, and implementation of the Gender Equality Seal program.

/Responsible bodies: GTA, MoF/

- **Medium-term (2024-2026):** Focus on property tax reforms, comprehensive analysis of tax incentives, and further data analysis.

/Responsible bodies: GTA, MoF, Cabinet, Parliament/

- **Long-term (2024-2028):** Implement VAT reforms, enhance public awareness, and continue monitoring and evaluation of gender-responsive tax policies.

/Responsible bodies: GTA, MoF, Cabinet, Parliament /

By adopting these recommendations, Mongolia can create a more equitable and inclusive tax system that supports gender equality, encourages economic participation among women, and contributes to achieving Sustainable Development Goal 5.

Implementing gender-responsive taxation policies will not only promote fairness but also enhance economic stability and growth by fully leveraging the potential of all citizens.

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