



# LAW OF MONGOLIA

12 February, 2015

Ulaanbaatar

## LAW ON FREE ZONE */Revised version/*

### CHAPTER ONE GENERAL PROVISIONS

#### **Article 1. Purpose of the law**

1.1. The purpose of this law is to determine the legal basis for the establishment, change, liquidation of a free zone, its location, management powers, control system, tax, customs, inspection, legal entity and civil registration, and special employment regime. to regulate the relations related to the implementation.

#### **Article 2. Legislation on free zones**

Legislation on free zones shall consist of the Constitution of Mongolia, this law and other legislative acts enacted in conformity with these laws.

2.2. If an international treaty to which Mongolia is a party provides otherwise than this law, the provisions of the international treaty shall prevail.

#### **Article 3. Definitions of legal terms**

3.1. The following terms used in this law shall have the following meanings:

3.1.1. "Free zone" means a part of the territory of Mongolia that has a special regime for business activities, which is considered to be located outside the Customs territory in respect of customs duties and other taxes;

3.1.2. "Special regime of operation in a free zone" means a tax exemption or exemption for business entities and individuals operating in a free zone for the purpose of attracting investment, introducing new technologies, supporting exports, and developing tourism and services. , special regulations specified in this law on preferential conditions for inspection, registration, customs control, travel in free zones and employment;

3.1.3. "Customs territory" means the territory specified in Article 4.1 of the Customs Law [2];

3.1.4. "Simplified customs clearance" means as specified in Article 30 of the Customs Law;

3.1.5. "Non-tariff restriction" is defined in Article 3.1.14 of the Customs Law;

3.1.6. "Trade facilitation" means international trade process or activities such as supply of goods, raw materials and products from seller to buyer, registration of bar codes, reduction of information flow, data and documents related to payment, simplification and harmonization;

*[/ This part was amended according to the law dated December 28, 2016 /](#)*

3.1.7. "Bar code" means a unique number identifying goods, raw materials, products and services.

*/ This part was amended according to the law dated December 28, 2016 /*

3.1.8. "Travel to a free zone" means a citizen of Mongolia, a foreign citizen or a stateless person entering a free zone for official or private purposes;

3.1.9. "Mongolian goods" means specified in Article 3.1.2 of the Customs Law;

3.1.10. "Goods produced in a free zone" means goods created in the territory of a free zone by more than 40 percent of the value added spent on production;

3.1.11. "Cross-border free zone" means a free zone established on the territory of a border state border based on an intergovernmental agreement.

## **CHAPTER TWO ESTABLISHMENT, CHANGE AND DISSOLUTION OF FREE ZONES**

### **Article 4. Purpose of establishing a free zone**

4.1. The purpose of establishing a free zone is to create a favorable legal and investment environment in the zone, support export and import of citizens and business entities, develop export-oriented industries, attract new trade and service sectors, tourism, investment, increase transit transportation and logistics. , to increase economic growth by introducing advanced techniques and technologies, facilitating trade, and accelerating regional development.

### **Article 5. Principles and preconditions for establishing a free zone**

The following principles and conditions shall be followed by the state in establishing a free zone:

5.1.1 be based on open, transparent and fair competition to support business;

5.1.2. To have necessary infrastructure such as roads, railways and airports in the area where the free zone is located or to be able to develop these infrastructures;

5.1.3 have water resources and energy supply to be used in the free zone;

5.1.4. To meet the norms, rules, standards and spatial conditions of urban development;

5.1.5 create a legal basis for the establishment of a free zone and create a favorable environment and conditions for investors, business entities and organizations to work in a credible manner;

5.1.6 be environmentally friendly;

5.1.7. Have a detailed plan to support sustainable regional development, local economy, reduce unemployment and train professional staff.

### **Article 6. Establishment, change, dissolution of a free zone, determination of its boundaries and location**

6.1. The State Great Hural shall decide on the establishment of a free zone in Mongolia, its location, size of the territory to be allocated to the free zone, determination, change, liquidation, and directions and types of activities upon submission by the Government.

6.2. A free zone shall be established at the border crossing point and in the region proposed by the Government.

6.3. A cross-border free zone may be established in accordance with an intergovernmental agreement, and the policy and direction to be followed in the free zone shall be regulated by an agreement concluded with the relevant state.

## **CHAPTER THREE FREE ZONE MANAGEMENT**

### **Article 7. Powers of the state central administrative body in charge of free zones**

The state central administrative body in charge of free zone matters shall exercise the following powers:

- 7.1.1. To develop the state policy and direction on the free zone;
- 7.1.2. Develop proposals on establishment, change and liquidation of free zones and submit them to the Government;
- 7.1.3 coordinate the activities of the free zone and provide unified management;
- 7.1.4 report annually to the Government on the activities of the free zone;
- 7.1.5 develop a budget related to state regulation and activities on free zones;
- 7.1.6. To coordinate the activities of state organizations and business entities in the free zone;
- 7.1.7. Provide management, ensure and monitor the implementation of projects and programs to be implemented with loans and grants in the free zone;
- 7.1.8 monitor the implementation of resolutions and decisions issued by the State Great Hural and the Government on free zone development projects and free zones;
- 7.1.9. Approve the rules and regulations to be followed in the activities of the free zone;
- 7.1.10. To set criteria for selection of projects and programs proposed by the Investors Council specified in 21.1 of this law.

#### **Article 8. Governor of a free zone and his / her powers**

8.1. The governor of a free zone shall be the state representative in charge of implementing the state administration in the free zone.

The Governor of a free zone shall be appointed and dismissed by the member of the Government in charge of free zone matters.

8.3. The governor of a free zone shall be responsible to the member of the Government in charge of free zone matters.

8.4. The governor of a free zone shall have an office and the Government shall determine the structure, staffing and expenses of the office.

8.5. The governor of the free zone shall use a stamp, mark and letterhead of the established design.

8.6. The Governor of a free zone shall issue an ordinance in accordance with the legislation within his / her area of responsibility, and if the ordinance does not comply with the legislation, he / she or the member of the Government in charge of the free zone shall amend or revoke it.

The governor of a free zone shall exercise the following powers:

- 8.7.1. To represent the free zone on issues related to the free zone operation and to make decisions within the scope of its authority;
- 8.7.2. Develop and approve the free zone development program and budget proposal and organize its implementation;
- 8.7.3. To conclude agreements and transactions on behalf of the free zone;
- 8.7.4. To define and implement the labor force and employment policy of the free zone;
- 8.7.5. To organize infrastructure and development activities of the free zone, to be responsible for and monitor the use of state-owned buildings and facilities;
- 8.7.6. Register and deregister a legal entity to operate in a free zone;
- 8.7.7. To issue permits to citizens, business entities and organizations to possess and use land in the territory of the free zone;
- 8.7.8 cooperate with the Investors' Council and other organizations specified in 21.1 of this law;
- 8.7.9. Require entrepreneurs to sell goods of clear origin, trademarks and bar codes in the free zone;

8.7.10. To coordinate and implement services such as maintaining public order, fire protection and providing emergency assistance in the territory of the free zone;

8.7.11. To issue a license to sell, serve alcohol, sell tobacco and conduct professional health activities in a free zone in accordance with the procedure approved by the state central administrative body in charge of free zone.

## **CHAPTER FOUR SPECIAL RULES OF ACTIVITIES IN THE FREE ZONE**

### **Article 9. Regulation of special regime of activities in a free zone**

9.1. Customs, visa, travel for citizens of Mongolia and foreign citizens, stateless persons, registration of legal entities, currency regulation, professional inspection, employment, tax and other special regimes shall apply to the free zone.

9.2. Public services in the free zone shall be based on electronic single window service to facilitate trade, tax relations, business and investment.

### **Article 10. Special customs regime in a free zone**

10.1. Customs clearance shall be performed on entry of goods into the free zone based on the following documents:

10.1.1. Cargo manifest, transport documents and, if necessary, relevant permits and licenses for goods imported into the free zone from abroad;

10.1.2. Receipt of tax payment for goods imported into the free zone from the territory of Mongolia, in addition to the documents specified in 10.1.1 of this law.

10.2. In addition to those specified in Article 38.1.4 of the Law on Customs Tariffs and Duties, simplified Customs clearance shall be performed when goods valued at up to MNT 3.0 million purchased by passengers are imported into the Customs territory from the free zone.

10.3. Non-tariff restrictions shall not be imposed on goods imported into the free zone from abroad and exported from the free zone abroad.

10.4. Simplified Customs clearance shall be performed for import of goods into a free zone from abroad and export of goods from a free zone abroad.

10.5. Risk-based Customs control shall be applied to goods imported into the free zone.

10.6. Business entities and organizations operating in a free zone shall be connected to the Customs in an electronic information network and the registration of goods introduced in the free zone shall be maintained in electronic form.

### **Article 11. Special visa regime in a free zone**

A citizen of a neighboring country shall travel in a free zone located at a border crossing point for 30 days without a visa and in accordance with an international agreement of Mongolia concluded on the conditions of mutual travel of a third country citizen.

11.2. A foreign citizen with a residence permit in Mongolia and an "entry-exit" visa shall travel to any free zone without a visa during the period of residence or visa.

11.3 The period of stay of a foreign citizen or stateless person specified in Article 11.1 of this Law and the period of travel without a visa may be extended for up to 30 days at a time.

11.4. A citizen of Mongolia, a foreign citizen or a stateless person shall enter the free zone by checking one of the following documents:

11.4.1. A citizen of Mongolia shall have a passport, ID card or driver's license;

11.4.2. A foreign citizen or stateless person has a passport or similar document;

11.4.3. Birth certificate or equivalent document of a citizen of Mongolia under 16 years of age.

## **Article 12. Regulation of registration of legal entities in a free zone**

12.1. A legal entity conducting business activities in a free zone shall submit the following documents to the office of the free zone governor:

12.1.1. If a legal entity of Mongolia is an application, a copy of the state registration certificate of the legal entity and a receipt of payment of the registration fee;

12.1.2. A foreign legal entity is a copy of the application, a document certifying the foreign legal entity, a power of attorney and a receipt of registration fee.

12.2. The Free Zone Governor's Office shall review the documents specified in Article 12.1 of this Law within five working days after receiving them and if it meets the requirements specified in the relevant regulations, it shall be registered as a legal entity in the free zone and a certificate shall be issued. valid.

12.3. The Free Zone Governor's Office shall submit quarterly information on foreign-invested legal entities and investments to the State Central Administrative Body Responsible for Free Zones.

A legal entity registered with the Free Zone Governor's Office may cooperate with other legal entities on a contractual basis. A legal entity cooperating in a free zone under a contract shall register in accordance with this law and obtain a registration certificate for a legal entity in a free zone.

12.5. A legal entity operating in a free zone shall be deregistered as a legal entity operating in a free zone on the following grounds:

12.5.1. Failure to start the main production and services specified in the agreement and charter within one year from the date of concluding the investment agreement and issuing the registration certificate of the legal entity in the free zone;

12.5.2. The operation has started but has been interrupted or stopped for more than 12 consecutive months due to its own reasons;

12.5.3. A court decision on liquidation has been issued.

## **Article 13. Regulation of settlements in the free zone**

13.1. Settlements in the free zone shall be made in national and foreign currencies.

13.2. Relations related to the establishment of a bank, non-bank financial institution and its branch in a free zone shall be regulated by relevant laws.

## **Article 14. Regulation of professional inspection in a free zone**

14.1. The professional inspection activities in the free zone shall be coordinated by the central specialized inspection agency.

14.2. An inspection shall be conducted on the following grounds:

14.2.1. If there is a need to inspect livestock, animals, plants and quarantine during the Customs inspection;

14.2.2. Complaints related to products, food hygiene, quality of buildings and facilities and environmental pollution within the free zone have been received.

## **Article 15. Special employment regime in a free zone**

Article 4.1.4 of the Law on Sending Labor Force and Receiving Labor Force and Specialists Abroad shall not apply to hiring labor force and specialists from abroad in a free zone.

15.2. If a business entity, organization or citizen in a free zone provides a foreign citizen with a job and engages in income-generating work or service, he / she shall be fully exempted from payment for the job.

15.3. If a legal entity operating in a free zone implements projects and programs to empower and specialize its employees, expenses shall be deducted from the taxable income of the current year.

## **Article 16. Special tax regime in a free zone**

The following tax exemptions and exemptions shall apply to a free zone:

16.1.1. Goods imported from abroad into the free zone shall not be subject to import customs, value-added and excise tax;

16.1.2. No tax shall be imposed on importation of goods imported into the Customs territory after payment of import customs duty, excise and value-added tax and shall be refunded with deduction from other taxes based on the receipt of payment of the tax in the Customs territory;

16.1.3. To impose value-added tax at the rate of "0" when importing Mongolian goods from the Customs territory to the free zone;

16.1.4. Exemption from Customs and value-added tax for import of goods worth up to 3.0 million MNT purchased by a passenger from the free zone into the Customs territory in addition to those specified in Article 38.1.4 of the Law on Customs Tariffs and Duties;

16.1.5. To impose customs duties and other taxes on goods imported into the Customs territory from a free zone other than those specified in 16.1.4 of this Law;

16.1.6. No tax shall be imposed on the export of goods from a free zone abroad;

16.1.7. Value-added tax shall not be imposed on goods, work performed and services provided by citizens and legal entities registered in a free zone in the territory of a free zone.

The Government may approve the list of goods valued at up to 3.0 million MNT specified in Articles 10.2 and 16.1.4 of this Law from time to time.

16.3. Goods up to MNT 3.0 million specified in Articles 10.2 and 16.1.4 of this Law shall not include goods subject to excise tax, drugs, medical devices and biologically active products.

~~16.4. / This part was repealed by the law dated March 22, 2019 /~~

16.5. In addition to those specified in 16.1 of this law, the following tax credits and exemptions shall apply to the free zone:

~~/ This part was amended according to the law dated March 22, 2019 /~~

~~16.5.1. Exempt business entities engaged in innovation and high technology production in the free zone from income tax for the next five years;~~

~~/ This provision was repealed by the law dated March 22, 2019 /~~

16.5.2. To fully exempt buildings and structures built and registered in the free zone from immovable property tax.

A legal entity registered in a free zone shall prepare financial and tax reports on activities in the free zone in accordance with relevant regulations and submit it to the free zone governor's office.

## **Article 17. Implementation of special regime and other service regulations in the free zone**

17.1. The Office of the Governor of the Free Zone shall implement the state registration, tax, Customs, inspection and quarantine regime through their representatives on the basis of an agreement concluded with the respective state administrative body.

17.2. The Free Zone Governor's Office shall implement social order, fire protection, emergency medical care, hygiene and infrastructure provision services on the basis of an agreement concluded with the public and private organizations in charge of the issue.

17.3. The free zone governor's office shall provide information on the implementation of the activities specified in 17.2 of this law to the relevant authorities in accordance with the legislation.

## **CHAPTER FIVE DOING BUSINESS ACTIVITIES IN THE FREE ZONE**

### **Article 18. Types of activities to be carried out in a free zone**

18.1. All types of activities such as production, services, tourism, trade, international banking, finance, quizzes and gambling shall be carried out in the free zone in accordance with the requirements established by the laws in force in Mongolia.

18.2. Activities requiring a license in a free zone shall be regulated in accordance with the Law on Licensing of Business Activities.

#### **Article 19. Income from business activities in a free zone**

The office of the governor of a free zone shall collect the following revenues in the state budget:

19.1.1. Business entities, organizations and individuals in the free zone shall have income tax and fees to be collected from them;

19.1.2. Payment for possession, use and provision of services of state-owned buildings and facilities of the free zone;

19.1.3. Land fee;

19.1.4 income from other business activities and services.

19.2. Up to 20 percent of the income specified in 19.1 of this Law shall be spent for the purpose of developing a free zone, accelerating infrastructure construction, increasing economic efficiency and supporting local development.

#### **Article 20. Communication with local Citizens' Representatives Khurals and Governors from the Free Zone Governor**

20.1. The governor of a free zone shall cooperate with the local Citizens' Representatives Khural and the Governor on the establishment and development of the free zone.

20.2 Improve employment and living standards of the local population.

20.3. Jointly implement projects and measures to develop free zone, aimag and local common industrial infrastructure in an environmentally friendly manner.

#### **Article 21. Investors' Council**

A free zone shall have an Investors' Council consisting of representatives of investors with the purpose of attracting investment, protecting the interests of investors, supporting and promoting the development of the free zone.

21.2. The Investors Council shall regulate its activities by the charter approved by its meeting.

21.3. An investor may implement a free zone management on the basis of an agreement concluded with the state central administrative body in charge of free zone matters.

### **CHAPTER SIX LAND RELATIONS IN A FREE ZONE**

#### **Article 22. Land regulation**

22.1. The land of the free zone shall not belong to the territory of the port.

The governor of a free zone shall make a decision to allow citizens, business entities and organizations to possess or use the land within the free zone, and his / her office shall enter into an agreement with the land possessor and land user.

22.3. The Government shall determine the base value of land to be possessed and used by citizens, business entities and organizations in the free zone and the amount of land fee.

22.4. The right to possess and use land shall be granted using one of the forms of project selection and auction.

A legal entity that has obtained the right to possess and use land in a free zone through a tender shall be issued a certificate of right to possess or use land after paying a one-time fee equal to the initial auction price in accordance with the procedures set forth in the relevant legislation.

22.6. The land possession and use right of a business entity that has the circumstances specified in Articles 12.5.1 and 12.5.2 of this Law shall be revoked.

22.7. Relations other than those specified in this law related to land possession and use in a free zone shall be regulated by the Law on Land.

#### **Article 23. Discounts and exemptions from land fees**

23.1. A business entity engaged in trade, tourism and hotel services shall be 100 percent discounted from the land fee for possession and use in the free zone for the first five years and 50 percent for the next three years from the date of commencement of its activities.

23.2. Business entities and their branches engaged in infrastructure and production, such as energy, heat sources, networks, clean water supply, disinfection and treatment facilities, roads, railways, airports and main communication networks in the free zone. 100 percent exemption from land fees for land possession and use in the free zone from the date of commencement of operations.

23.3. Mongolian and foreign legal entities and citizens who have concluded land use and possession agreements in a free zone may be exempted from land fees for a certain period of time, taking into account their fulfillment of their obligations to use, possess and protect land benefits.

23.4 The Government shall decide on the timing and rate of the land fee refund specified in Article 23.3 of this Law.

### **CHAPTER SEVEN FREE ZONE INFRASTRUCTURE**

#### **Article 24 Infrastructure and construction of a free zone**

The general development plan of a free zone shall be approved by the Government.

24.2. Relations related to urban development, infrastructure and construction of free zones in accordance with the general plan specified in 24.1 of this Law shall be regulated by the Law on Urban Development, Law on Construction, Law on Roads, Law on Energy and other relevant legislation.

24.3 Free zone infrastructure and facilities may be established on the basis of a concession agreement.

24.4. Infrastructure of a free zone may be financed by the state and local budgets, private sector investments, foreign loans, grants and government bonds in addition to those specified in 24.3 of this law.

### **CHAPTER EIGHT FREE ZONE GUARD**

#### **Article 25. Protection of a free zone**

A free zone shall belong to a state special object.

25.2. The guard duty of a free zone at a border crossing point shall be performed by a border guard organization and other free zone guard duty shall be performed on the basis of an agreement concluded with a relevant organization.

25.3. The domestic military shall be responsible for maintaining public safety and order in the free zone.

*/ This part was amended according to the law dated February 09, 2017 /*

### **CHAPTER NINE MISCELLANEOUS**

#### **Article 26. Liability for violators of the law**

~~26.1. The governor of a free zone shall revoke the registration certificate of a citizen or legal entity that has violated the special regime in the free zone.~~

*/ This part was annulled by the law in 4 December 2015 /*

26.2. In case a business entity or individual operating in a free zone is liquidated or ceases to operate in the free zone for reasons other than bankruptcy prior to the expiration of the agreement with the free zone governor, it shall be reduced to the tax debt of the business entity. calculated.

26.3. If the actions of an official violating this Law are not of a criminal nature, he / she shall be subject to liability specified in the Civil Service Law.

*/ This part was amended according to the law dated December 04, 2015 /*

26.4. A person or legal entity that violates this Law shall be subject to liability specified in the Criminal Code or the Law on Violations.

*/ This part was added by the law in 4 December 2015 /*

**CHAIRMAN OF THE PARLIAMENT OF MONGOLIA Z.ENKHBOLD**