

4 December 2007

TO: HONORABLE SPEAKER OF THE STATE IKH KHURAL
MR. LUNDEEJANTSAN DANZAN,

RE: Base of social insurance contributions

As representative associations of the Mongolian private sector, we endorse Parliament's continuing efforts in the process of aligning Mongolia's tax system with best international practice to increase the country's competitiveness.

As representative business organizations we have examined the proposed amendments to social insurance law carefully and endorse all of them. In addition, we would like to propose for discussion and consideration the following two issues:

1. Incorporate definition of the base payroll and similar income subject to social insurance premium;
2. Adopt the current cap on the base payroll and similar income for both employer and employee and incorporate the cap in to the Social Insurance Law.

In accordance with Article 32 of the current Social Insurance Law, the definition of base payroll and similar income and maximum limit on the base payroll and similar income subject to social insurance contributions by employees has been determined by the Government and indexed as 10 times the minimum monthly wage. The latest monthly minimum wage fixed is MNT 90,000 starting October 1, 2007 which resulted in a cap amounting to monthly MNT 900,000.

However, the cap is applied to assessment of social insurance contribution of employees only. This conflicts equal treatment between employer and employee, the equal treatment and right protected by our Constitutional Law .

We understand that one of the key objectives of the social insurance law reform initiated by the State Ikh Khural is to reduce social charges on labor and to broaden the base of contributors to the social insurance. In ensure these key objectives are substantially achieved and to have a deep root for substantial achievement, we believe that a cap on the base payroll and similar income must be implemented in addition to the decrease in social insurance premium rate. This will result in substantial decrease in social insurance which will translate into lower costs for the production of goods and services, simplify the administration of benefits in businesses, and help formalize employment, thereby expanding the base of tax contributors.

Common international practice places limit on the base payroll income used for such assessment. In the United States, for example, Social Security assessments are set at a rate of 6.2% employers and the same for employees for a combined total rate of 12.4%. The maximum base on which these contributions are assessed in 2007 was \$102,000 annual salary income. This base is indexed to the average annual wage index in the U.S. and is equal to about three times the average wage. In addition the U.S. levies 1.45% from the employer and the same rate from the employee for Medicare contributions. All together, Social Security and Medicare contributions equal to a combined rate of 15.3%, both from employee and employer together.

The rationale for the cap on the base on which social insurance contributions are assessed is based on common international practice and needs of Mongolian businesses to attract and retain international quality managers. As our country seeks to develop a competitive position in the world economy, Mongolian businesses need to be attractive to qualified managers. The absence of a cap on the base for social insurance contributions makes it onerous for Mongolian businesses to and foreign managers alike to work in Mongolia.

Therefore, we would propose that Article 32 be amended (Amendments/additions are highlighted) as proposed in Appendix 1 to this letter.

In summary, we would request your consideration of this proposal and are available to discuss it with you and members of your Standing Committees at your earliest convenience.

With our highest esteem and on behalf of the Mongolian National Chamber of Commerce and Industry, the Mongolian Employers Federation and the Business Council of Mongolia,

MNCCI, MONEF, BCM

Copies to:

Honorable Member of Parliament Mr. Ulaan Ch.
Chairman, Standing Budget Committee

Honorable Member of Parliament Mr. Ganhuyag D.
Chairman Economic Policy Standing Committee

Honorable Member of Parliament Ms. Gandi T.

We propose that Article 32 be amended (Amendments/additions are highlighted) as follows:

Article 32. Defining the average salaries and similar income and **placing a maximum amount on salaries and similar income**

1. The government shall approve procedures for defining composition, maximum and average amount of salaries and similar income on the basis of which premium to be paid **by employers and insureds** and pension and benefit to be determined for insureds.