

Cambodia

Tax Profile

Produced by the Directorate
General Department of Taxation.
Ministry of Economy Finance,
Cambodia.

2023

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1 Corporate Income Tax

1.1 General Information

Corporate Income Tax

Corporate Income Tax ('CIT') / Tax on Income ('Tol')

Tax Rate

The Cambodian Tax Law provides the following CIT/Tol rates:

20% on income realized by a legal person but preference can be given on official circumstance.

30% on income realized under an oil or natural gas production sharing contract and the exploitation of natural resources including timber, ore, gold and precious stones.

0% on income of the Qualified Investment Project ('QIP') during the tax exemption period as determined by CDC.

5% of gross premium received for general insurance, reinsurance or small scale enterprises, which includes property, liability and health insurance.

subject to normal CIT/Tol rate of 20% for life insurance or reinsurance enterprises, which includes life, endowment and annuity insurance.

Furthermore, with the 2018 Law on Financial Management ('LoFM'), promulgated on 9 December 2017, there was an amendment on the existing tax law by adding additional Articles on the tax provisions on petroleum and mineral resources. As per the 2018 LoFM and recent Prakas, taxpayers conducting Petroleum and Mineral Resources operations shall be subject to:

Annual Tol rate of 30% on taxable income during a tax year;

Tax on Excess Income at a progressive tax rate by tranche based on excess income ratio as per below table;

| Tranche | Excess income ratio* | Rate |
|---------|----------------------|------|
| 1 | up to 1.3 | 0% |
| 2 | Above 1.3 to 1.6 | 10% |
| 3 | Above 1.6 to 2 | 20% |
| 4 | Above 2 | 30% |

*excess income ratio of any current tax year is the ratio of accumulative revenue and accumulative expenses of from the petroleum operation until that current tax year.

loss carried forward is allowed until the 10th year for petroleum operations and the 5th year for mineral resource operations;

deduction for interest expense is subject to debt to equity ratio of 3:1 rule;

There are various other tax treatment, for example, depreciation, deductions, transfer of interest, etc. that is applied for this sector as recently provided under the 2018 LoFM.

Minimum Tax

Minimum tax is a separate and distinct tax to ToI, and is payable by taxpayers (with certain exceptions) regardless of whether they are in a profit or loss situation. Minimum tax is calculated at 1% of annual turnover inclusive of all taxes, except Value Added Tax ('VAT').

If the ToI liability exceeds the minimum tax liability, the minimum tax will not be applicable. In contrast, if the minimum tax liability exceeds the ToI liability, the minimum tax will be payable.

Minimum Tax will be imposed on taxpayers who maintain "improper" accounting record (i.e. effective from the tax year 2017 onwards)

Residence

A resident taxpayer is primarily an enterprise that is organized and managed in Cambodia or its principal place of business is Cambodia.

A non-resident taxpayer is an enterprise that derives Cambodia sourced income, but does not have a place of management in Cambodia. A non-resident taxpayer will be deemed to be a Cambodian resident for tax purposes if it is found to have a permanent establishment in Cambodia.

A resident taxpayer is subject to CIT/ToI on income derived from both Cambodian and foreign sources, whereas, a non-resident taxpayer is subject to CIT/ ToI in respect of its Cambodian sourced income only.

Basis of Taxation

The CIT/ToI is the debt of a resident person on income from Cambodian sources and income from foreign sources, and the debt of a non-resident person on income from Cambodian sources.

Tax Losses

Losses can be carried forward for a maximum of 5 years (except for the loss carried forward provisions of the petroleum and mineral resource operations as indicated above). Tax losses may be forfeited upon a change in ownership of the business or if there is a change in the business activity. Tax losses will also be forfeited in the event a taxpayer is subject to a unilateral tax reassessment.

There is no restriction on the amount of taxable income that can be offset by tax losses – all of the tax losses available can be used to offset against the taxable income of one year.

Losses cannot be carried back to prior periods.

Tax Consolidation/Group relief

There is no grouping relief/consolidation provisions in Cambodia.

Transfer of Shares

All realized gains (including capital gains) are treated as income. Registration tax (stamp duty) of 0.1% applies to the value of shares transferred.

Transfer of Assets

Cambodia does not impose a separate tax on capital gains. Gains arising from the disposal of real property and other assets are treated as ordinary income and are therefore subject to tax at the prevailing CIT/ToI rate.

In addition, there is a 4% property transfer tax on the transfer of title of certain assets, such as land, buildings and all kinds of means of transportation and vehicles. The 4% tax is imposed on the transferred value and payable by the party acquiring the asset (within three months from the date of execution of the agreement to transfer the title).

CFC Rules

There is no CFC regime in Cambodia.

Thin Capitalization

Cambodia has no specific thin capitalization legislation.

However, the allowable interest deduction on loan is as follows:

- 1 For loans from a non-related party, the interest expense shall not exceed 120% of the market interest rate, and
- 2 For loans from a related party, the interest expense shall not exceed the market interest rate.

The General Department of Taxation will issue the applicable market interest rate annually.

The amount of interest expenditure permitted under point (1) and (2) is further limited by the following rule.

Interest expenditure allowed as a deduction is limited to an amount equal to the total interest income plus 50% of net non-interest profit earned for the year. Net non-interest profit is the gross income, other than interest income, less allowable non-interest expenses. The excess interest expense can be carried forward to future years.

Amalgamations of Companies

There is no specific amalgamation rule.

General Anti-avoidance

There is no general anti-avoidance provision contained in Cambodian tax law.

Anti-treaty Shopping

Cambodia has signed Double Tax Agreement ('DTA') with five countries Singapore, China, Brunei, Thailand and Vietnam (refer to section 1.6 below).

Other Anti-avoidance

Not applicable

Rulings

There is no formal or binding ruling system in Cambodia.

A taxpayer can submit a letter seeking a ruling, but the Tax Office is usually reluctant to respond, or does not respond at all. Obtaining a ruling request from the Tax Office is likely to be a time consuming process.

Likewise, the tax authority is reluctant to give an informal opinion or ruling.

There is no public ruling system in Cambodia.

Hybrid Instruments

There are no special rules applicable to hybrid instruments. **E**

Hybrid entities

There are no special rules applicable to hybrid entities.

Related Business Factors

In general, businesses operate in Cambodia via the following vehicles:

Company ("Single Member Private Limited Company" having only one shareholder and "Private Limited Company" having more than one shareholder);

Branch of a company incorporated outside of Cambodia; and

Commercial representative office of a company incorporated outside of Cambodia.

The minimum capital for establishing a commercial company is KHR 4,000,000 (approx. USD 1,000)

The name of the company must first be cleared and permitted by the Ministry of Commerce.

To apply for a particular license to carry out some specific business operations, additional information may be required.

The Foreign Exchange Law of 1997 provides for foreign currencies to be freely purchased via the banking system. In particular, the Law states that there should be no restrictions on foreign exchange operations; however, these operations can only be performed through an authorized financial institution.

1.2 Determination of Taxable Income and Deductible Expenses

1.2.1 *Income*

General

Taxable income is the net profit obtained from all types of business operations including capital gains realized during the business operation or at the cessation of the business, interest, rental, and royalty income as well as income and gains from financial or investment assets including immovable assets.

Taxable income shall also include all capital gains realized from operations other than business operations.

The determination of taxable income, and the rules and procedures for the collection of the tax due, are determined by Prakas (Regulation).

Branch Income

Generally, a branch is subject to income tax as the same as company, for instance remittance of profit to the overseas Head Office will be subject to the Additional Income Tax on Dividend Distribution ('AITDD') unless the profit has been subject to and fully paid income tax at the prevailing rate. Furthermore, if the branch makes any transfer of Cambodian sourced income to its overseas Head Office, it will be also required to withhold the 14% WHT.

Capital Gains

All realized gains (including capital gains) are treated as income. Cambodia does not impose a separate tax on capital gains. Gains arising from the disposal of real property and other assets are treated as ordinary income and are therefore subject to tax at the prevailing ToI rate

Dividend Income

Dividends received from resident companies are not subject to income tax. Dividends received from non-resident companies are subject to income tax in Cambodia. However, a credit for tax paid overseas on foreign source income is generally allowed.

AITDD is applicable on the distribution of retained earnings/annual profit after tax. AITDD is imposed on any dividend distribution, by calculating the difference between Tax on Income payable and Tax on Income paid during the year.

If AITDD or ToI has already been deducted on the dividend distributed, then the recipient company can record in a dividend account. Subsequent distribution of the said dividend to the recipient enterprise's shareholder shall then be exempted from AITDD. Payment of AITDD to the GDT is due on the 20th day of the following month in which the distribution is paid.

Interest Income

Subject to normal CIT/ToI rate except for interest income from deposits at banks (where WHT is already withheld and paid by the banks) for general insurance enterprise.

Other Significant Items

Not applicable.

1.2.2 *Expenses*

General

Allowable deductions include most expenses incurred in the course of carrying on a business, with certain limitations. The deductibility of charitable contributions is limited to 5% of taxable profit of the taxpayer.

Depreciation is allowed as a deduction in accordance with the rates determined by the tax provisions. There are also certain restrictions on the deductibility of interest.

Minimum Taxation Requirements for the Deductibility of Losses

Subject to condition as indicated Section 1.1 above.

Capital Losses

Capital gains/losses on disposal of fixed assets per accounting is not taxable/deductible for ToI purpose except for capital gain/loss on disposal of fixed assets per tax as noted below

Also, foreign exchange or capital losses on an asset are only allowable for deduction when the losses are realized. Similarly, foreign exchange gain or capital gains on an asset are only taxable when the gains are realized.

Bad Debts

Bad debt expense can only be deductible provided the Company has taken all possible action(s) to recover the bad debts, with sufficient evidence showing that recovery action has been exhausted. Otherwise, the Tax Office may disallow the claim.

Change of Control Rules

There is no specific provision on change of control rule

Depreciation/Capital allowance

Depreciation is deductible in accordance with specified rates if the assets are used in the course of carrying on a business.

Land is not a depreciable asset. Depreciable assets are divided into the following classes, and are depreciated at the following rates:

Class 1: Buildings and structures – 5% straight line

Class 2: Computers, electronic information systems, software and data handling equipment – 50% diminishing value

Class 3: Automobiles, trucks, office furniture and equipment – 25% diminishing value

Class 4: All other tangible property – 20% diminishing value

Fixed assets in classes 2 to 4 are accounted for on a pooled basis, and therefore capital gains or losses on the disposal of fixed assets are not calculated individually but are calculated based on the result of the pooled asset account.

Additions for fixed assets from class 1 to 4 are depreciated for the full year in the year of acquisition.

Double Deductions

There is no double deductions rule

Interest Expenses

As indicated in Section 1 above.

Inventories

No special provision for inventories.

Other Significant Items

Not applicable

1.3 Tax Compliance

Compliance Requirements

Cambodia has a self-assessment system for the filing of CIT/ToI returns.

CIT/ToI returns are filed annually, and are due three months after the end of the tax year.

Mandatory Electronic Filing

There is no available e-filing mandatory compliance.

Requirement to Prepare Tax computation / Return in Functional Currency

The tax computation or return can be prepared in foreign currency and then converted to the Khmer Riel by using the exchange rate issued by the Tax Office for submission to the Tax Office

Documents to File with Tax Return

Various schedule supporting the tax returns.

Language to File Return, Computation and Supporting Documentation(s)

Bilingual returns and supporting schedules are acceptable.

Filing Extension Availability and Details

Not applicable in Cambodia.

Payment of Estimated Tax

Not applicable in Cambodia

Interim Tax returns

There is no interim tax returns requirement.

Payment of Tax

Payment of tax and filing the tax return are required to be made within 3 month following the tax year.

Penalties for Non-Compliance

Additional tax at 10%, 25% or 40% depending on the level of non-compliance + 2% interest penalty per month (no cap) plus approximately USD 500 administrative fine depending on the non-compliance case.

Penalties and/or Interest for Underpayment of Taxes

As above

Statute of Limitation

Within 3 years or 10 years timeframe in case that there is an obstruction of implementation of tax law.

1.4 Financial Statements/Accounting

Details of Local Accountant Requirements

Financial statements

The National Accounting Council of Cambodia adopted the International Financial Reporting Standards for Small and Medium-sized Entities and International Financial Reporting Standards ('IFRS') issued by the International Accounting Standard Board (IASB) effective for Financial Statements with the period beginning on or after 1 January 2010 and 1 January 2012, respectively. The standards are referred to as Cambodian International Financial Reporting Standards for Small and Medium-sized Entities (CIFRS for SMEs) and Cambodian International Financial Reporting Standards ('CIFRS'). Public accountability entities are required to adopt CIFRS and non-public accountability entities that meet the audit requirements below are required to adopt CIFRS for SMEs or opt to use CIFRS, if necessary. Other entities can also adopt CIFRS for SMEs. However as defined under the regulations published by the NBC financial institutions, entities are required to adopt Cambodian Accounting Standards ('CAS') which is a local GAAP.

Audit requirements

All enterprises that meet two of the following three criteria set by the Ministry of Economy and Finance, shall submit their annual financial statements to be audited by an independent auditor registered with the Kampuchea Institute of Certified Public Accountants and Auditors ('KICPAA'):

annual turnover above Riels 3,000,000,000 (approximately USD 750,000)

total assets above Riels 2,000,000,000 (approximately USD 500,000)

more than 100 employees

For QIPs registered with the Council for the Development of Cambodia in accordance with the Law on Investment, there is an obligation to submit their annual Financial Statements to be audited by an independent auditor registered with the KICPAA.

Law on accounting & auditing

On 11 April 2016, a new Law on Accounting and Auditing set forth certain accounting requirements. The key requirements of the law are outlined in the sub-sections below.

Fiscal Year

Book year / accounting currency

Where a new company is established during a financial year, the first period of account runs from the date of incorporation to the 31st December of the first financial year in which it is registered.

The law states that accounting periods different to the standard period outlined above are possible under specific circumstances, which will be determined by Prakas. Once again, no such Prakas has yet been released. However, subsidiaries of international companies have historically been able to amend their fiscal year end to match with that of their parent company by providing certain information such as evidence of the parent company's period end date. There is no reason to believe that this will not continue to be the case under the new accounting law.

Periodicity of Local Books to be Closed

Enterprises and not-for-profit organizations are required to prepare financial statements within 3 months following the year-end. However, there are no provisions in the law relating to the submission of financial statements and therefore it is currently not clear how the authorities will ensure that this requirement is met.

Retention Period for Statutory Financial Statements / Working papers

Enterprises and not-for-profit organizations are obligated to maintain their accounting records for a period of ten (10) years. This requirement can be interpreted to also include the statutory financial statements and supporting working papers

Requirements to Retain Physical Copies Locally/Electronically Stored Data to Reside on In-country Server

There is a requirement for all enterprises to maintain accounting records for a period of 10 years, starting from the date of establishment of the records. This includes supporting documentation for all transactions recorded in the financial records.

Requirements to Prepare Financial Statements in Local Currency

Accounting records and financial statements should be in Khmer language and Khmer Riel, and a second set of accounting records and financial statements may be prepared in a foreign currency and in English language if the entity carries out its activities with foreign entities.

What GAAP must the Financial Statements be Prepared Under?

Public accountability entities are required to adopt CIFRS and non-public accountability entities that meet the audit requirements below are required to adopt CIFRS for SMEs or opt to use CIFRS, if necessary. Other entities can also adopt CIFRS for SMEs. However as defined under the regulations published by the NBC financial institutions are required to adopt CAS which is a local GAAP.

Prescribed Format and Details for Financial Statements

There are no provisions in the law relating to the prescribed format and details for financial statements, other than the fact that they must be prepared in accordance with either CIFRS or CIFRS for SME as noted above.

Filing Due Date

There are no provisions in the law relating to the filing of financial statements.

Filing Format of Financial Statements

There are no provisions in the law relating to the filing of financial statements.

Filing Extension Availability and Details

There are no provisions in the law relating to the filing of financial statements.

1.5 Incentives

Intellectual Property Incentives

There are no intellectual property incentives available in Cambodia.

R&D Incentives

There are no R&D incentives available in Cambodia.

Special Tax Regimes for Specific Industries or Sectors

There are currently no special tax regimes for specific industries or sectors, except for the recent promulgated tax law on petroleum and mineral operations as indicated in Section 1 above.

Other Incentives

Cambodia provides a number of investment incentives. These incentives are available to all sectors, except those that are included on the “negative list”, and generally include:

Tol exemption for up to nine years (specific conditions apply)

Accelerated depreciation on manufacturing assets, if elected not to apply the Tol exemption

Import duty exemption on production equipment, raw materials and inputs to manufacturing

Right to employ foreign labour

1.6 International Taxation

Double Taxation Relief

Cambodia signed DTA with five countries: Singapore, China, Brunei, Thailand and Vietnam.

As of the date of this guide, the DTAs with Singapore and Thailand became effective and were implemented since 1 January 2018, the DTA with China will be implemented starting 1 January 2019 and the DTA with Brunei will be implemented on 1 January of the year after the agreement becomes enacted by both countries. Up to this date, the agreement with Vietnam has not been passed and enacted by Cambodia's National Assembly's yet.

Foreign-exchange Controls

The Foreign Exchange Law of 1997 provides that there should be no restrictions on foreign exchange operations. However, these operations can only be performed through an authorized financial institution. Although the KHR is the official currency of Cambodia, the USD is in common circulation and the majority of commerce is denominated in USD. There are no restrictions on the establishment of foreign currency bank accounts in Cambodia for residents.

International Withholding Tax Rates

Any resident taxpayer who makes payment from Cambodian sourced income(s) to a non-resident, shall withhold and pay as tax an amount equal to 14% of the amount payable. Cambodian sourced income(s) include such as:

Interest payment;

Income from movable or immovable property, if such property is situated in Cambodia;

Management and technical services;

Dividends; and

Other various income as provided in Article 33 of Cambodia's Law on Taxation.

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Withholding Tax Rates under the Income Tax Treaties

| Cambodia - Treaty Withholding Rates Table | | | | |
|---|---------------------------|-------------------------|-----------------------|-----------|
| | Dividends | | Interest | Royalties |
| | Individuals, companies | Qualifying companies | | |
| | (%) | (%) | (%) | (%) |
| Domestic Rates | | | | |
| Companies: | 14 | 14 | 14 | 14 |
| Individuals: | | | | |
| Treaty Rates | | | | |
| Brunei | 10 | 10 | 10 | 14 |
| China | 10 | 10 | 10 | 10 |
| Singapore | 10 | 10 | 10 | 10 |
| Thailand | 10 | 10 | 10 or 15 ² | 10 |
| Vietnam | 10 | 10 | 10 | 10 |

Notes:

- 1) To apply the treaty rate, there are some requirements and supporting documents need to be met/obtained from the Cambodia Tax Office.
- 2) Per treaty with Thailand, the treaty limit the tax rate at 10 percent, if interest is received by any financial institution (including insurance company). In all other cases, the treaty rate limit is 15 percent.

Please note the rates above are the withholding rates based on the double tax agreement. In many circumstances, there are requirements to be met in order to avail these rates. In this regard, the table should be used as a guide and not relied upon in isolation

Other Agreements

None

Income Tax Treaties for the Avoidance of Double Taxation (Negotiated, not yet in force at time of publication)

Treaty negotiations are anticipated between Cambodia and a number of the other Association of South-East Asian Nations (ASEAN) countries, with the status of negotiations is unknown.

Source: IBFD and the Cambodia Tax Office

Agreements for the Exchange of Information

As stated per the DTAs with the relevant countries as indicated above.

Indirect Offshore Disposal Rules

There is no specific rule on this matter

2 Transfer Pricing

Requirements

Cambodia's new provisions for division of income and expense between related parties (i.e. transfer pricing rule) is based on the guiding concept of "arm's length" principle and there are five methods allowed to assist with the principle:

- Comparable Uncontrolled Price
- Resale Price Method
- Cost Plus Method
- Transactional Net Margin Method
- Profit Split Method.

The taxpayer must be able to support its Related Party Transaction (RPT) position with detailed documentation supporting the basis and pricing of any RPT. Taxpayers will also be required to fill in certain information on the annual Tax on Income returns as may be required by the Cambodia Tax Office.

A related party relationship is one where the entities have commonality of shareholding of 20%.

Cambodia has no Advance Pricing Agreement or Mutual Agreement Procedures regime. -

Country by-Country Reporting

Not applicable

Master and Local Files Reporting

Not applicable

Common Reporting Standard

Not applicable

3 Indirect Tax

Indirect Tax

Value Added Tax - VAT

Structure

VAT is applied on the taxable supply of goods and services in Cambodia and imported goods by a taxable person.

Standard Rate

The standard rate of VAT is 10%.

Zero rating applies to export of goods and services and certain charges in relation to international transport of people and goods. Also, this zero rating is applicable for any goods and services supplied by supporting industries' QIP / contractors to particular export industries.

VAT on certain supply and import of certain products shall be borne by the State (i.e. State Charges) and the notable exemptions and incentives include:

For supporting industries and contractors, who supply for the manufacturing of garments, clothing, shoes, bags and hats for export;

- Their imports of products and equipment in order to make those supplies, the VAT on the import shall become a State Charge
- Their supplies to support the manufacturing industries shall be subject to a 0% VAT rate.

For VAT on the imports and supplies to agricultural products (i.e. fertilizers, seeds, animal feeds, lives stocks, farm vehicles).

For contractor's importing products and equipment in order to make supplies to rice productions for exports, the VAT on the import shall become a State Charge. Their supplies to rice productions for exports shall be subject to a 0% VAT rate.

For the supply of basic food which is essential for the daily living of people, VAT shall become State Charge.

4 Personal Taxation

Income Tax

Top Rate

Personal tax / tax on salary

Progressive tax rate by tranche (0%, 5%, 10%, 15%, and 20%) for residents and flat 20% rate for non-residents. But on special preference 4% rate can be given to Non-residents with aid of the Government.

Social Security

National Social Security Fund ('NSSF')

Every month, an employer (with one or more staff) shall report the number of workers/employees he/she employs, and pays a contribution of 0.8% (for occupational risk scheme) and 2.6% (for healthcare scheme) of the average monthly wage of the workers to the NSSF, by the 15th of the following month.

It's the burden of employer to report and pay the monthly NSSF contribution.

International Social Security Agreements

Cambodia has no such agreements for individuals, but Presidency can provide government immunity in official matters.

Visa Requirements

No foreigner can legally work or do business in Cambodia without obtaining ordinary Class E visa and a work permit and an employment card.

5 Other Taxes

Resident Withholding Rates

A resident taxpayer is required to withhold tax from certain payments of Cambodian sourced income to a resident entity, including:

Payment for services to a physical person or non-registered taxpayer (15%)*

Payments of royalties for intangible assets and interests in minerals, oil, or natural gas (15%)**

Interest payments (various rates depending on the recipient)

Income from rental of moveable or immovable property (10%)

**The WHT is not applicable if the recipient of the payment is a real-regime taxpayer.*

***Interest paid to domestic banks or saving institutions is exempt from withholding tax*

Patent Tax

Patent tax is an annual business registration tax which all enterprises carrying on business activities in Cambodia are required to pay by 31 March each year. A “patent tax certificate” will be issued by the Tax Office upon registration.

If an enterprise carries out different types of businesses, a separate patent tax certificate is required for each distinct business activity. Likewise, if a taxpayer carries out business in different cities or provinces, a separate patent tax certificate is required for each location.

In accordance with the Law on Financial Management for year 2016 and subsequent Prakas issued by the MoEF in relation to the change of classification of Taxpayers in the Self-Assessment Regime as well as for the management of Patent Tax collection, Patent tax payable has been revised and will now be payable depending on form of the business as well as type of business activity and the level of turnover of taxpayer:

Small Taxpayers: KHR 400,000

Medium Taxpayers: KHR 1,200,000

Large Taxpayers*: either KHR 3,000,000 , if annual turnover is between KHR 2,000 million and KHR 10,000 million; or KHR 5,000,000 , if annual turnover is over KHR 10,000 million

Stamp Duty

Registration tax (Stamp Duty) of 0.1% applies to a transfer of shares. 0.1% registration tax also applies on the government contract value related to the supply of goods/services that are used under the state budget.

Registration tax applies to the following legal documents at a flat rate of KHR 1,000,000 (approximately USD 250):

Company formation

Company merger

Dissolution of a “Company”

Tax on Unused Land

A tax is levied on unused land and the registered owner of the land is responsible for the payment of the tax. Tax on unused land is based on 2% of the market price per square meter as determined by the Committee for the Valuation. Tax on unused land is due to be paid annually by 30 September. However, unused land on which ‘Tax on immovable property’ (‘TIP’) has been paid on it, is not subject to tax on unused land, effective from 2011 onwards.

Tax on Immovable Property

TIP was created in the 2010 Law on Financial Management ('LFM') and is imposed on certain immovable properties. The term "immovable property" is defined as land, houses, buildings and construction that are built on the land.

TIP will be collected annually at the rate of 0.1% on the value of immovable property that is more than the threshold of KHR 100,000,000 (approximately USD 25,000). The value of the immovable property is assessed by the Assessment Committee, which is set up by the MEF.

Tax on Public Lighting ('TPL')

TPL is a tax levied on the sale of alcohol and cigarette products, both imported and domestically manufactured, at each stage of supply.

The basis for TPL calculation* is as follows:

** for importer or manufacturer, the tax rate is 3% of the value of taxable product exclusive of VAT and TPL itself.*

** for reseller and/or distributor, the tax rate is also 3%, but the basis is now only 20% of the amount recorded on invoice, exclusive of VAT and TPL itself.*

The tax is payable on a monthly basis, by the 20th day of the following month. The revenue from the collection of this tax shall be used to improve public lighting in cities and the provinces.

** the revised calculation for reseller and/or distributor was effective 9 October 2017 onward, .*

Accommodation Tax

VAT is a tax on the provision of accommodation services. AT is levied at the rate of 2% on accommodation services fees, inclusive of other services charges and all kinds of taxes but exclusive of the AT itself and VAT. Payment of AT to the GDT is due on the 20th day of the month following the month in which the charges occur.

6 Trade & Customs

6.1 Customs

Customs Duty

Customs duty is levied on certain goods entering Cambodia. The rates vary depending on the type of goods.

Currently, the duty rates are 0%, 7%, 15%, and 35%. Exemptions can also be obtained as part of the tax incentives offered in Cambodia.

As a member of the Association of Southeast Asian Nations ('ASEAN'), Cambodia is party to the ASEAN Trade in Goods Agreement, which aims at reducing customs duty of most goods to 0% - 5% by 2015.

Excise Duty

Specific tax on certain merchandises and services (STCMS) is a form of "excise tax" that applies to the importation or domestic production and supply of certain goods and services, including:

Domestic and international telephone services (3%)

Domestic and international air ticket (10%)

Entertainment services (10%)

Cigarettes of all kinds (20%)

Beer of all kinds (30%)

Wine of all kinds (35%)

For domestically produced goods the basis for STCMS's calculation is 90% of the selling price disclosed on the invoice exclusive of VAT and STCMS.

6.2 Free Trade Agreements (FTA)

In Force

Cambodia is a member of the ASEAN Free Trade Area Trade Agreement

Member countries:

| | | |
|-----------|-------------|-----------|
| Brunei | Malaysia | Singapore |
| Cambodia | Myanmar | Thailand |
| Indonesia | Philippines | Vietnam |
| Laos | | |

Agreements signed between Cambodia (under ASEAN)

1. ASEAN Free Trade Area
2. ASEAN-Australia-New Zealand Free Trade Agreement
3. ASEAN-People's Republic of China Comprehensive Economic Cooperation Agreement
4. ASEAN-India Comprehensive Economic Cooperation Agreement
5. ASEAN-Japan Comprehensive Economic Partnership

6. ASEAN-(Republic of) Korea Comprehensive Economic Cooperation Agreement

Concluded / Signed (pending domestic ratification)

ASEAN – Hong Kong, China Free Trade Agreement

In Negotiation

Regional Comprehensive Economic Partnership

Members are as follows:

| | | |
|-------------|-------------------|----------|
| Australia | India | Japan |
| Lao | Myanmar | Thailand |
| Philippines | Brunei Darussalam | China |
| Indonesia | Korea | Malaysia |
| New Zealand | Singapore | Vietnam |
| Cambodia | | |

7 Tax Authority

Tax Authority

General Department of Taxation

Tax Audit Activity

A tax audit can be conducted within three years of the date a tax declaration was required to be submitted, or within 10 years of the date the tax declaration was required to be submitted if there is evidence of the “obstruction” of the implementation of tax provisions. The Tax Office defines “obstruction” very broadly, and the practical reality is that a 10 year time frame for tax audit activity is enforced.

The majority of companies can expect to be audited by the tax authority every two or three years of business operations.

There are three types of tax audits; desk audit, limited audit, and comprehensive / final tax audit.

Desk and limited tax audits

The desk and limited audits should be conducted on limited certain items of a particular tax year. However, this may not be the case in practice as what is audited by the desk and limited audits is often out of the scope of what is supposed to be audited.

In our experience, if a desk audit is conducted on a particular tax year, the limited audit will not be conducted in that tax year and vice versa. The tax year which has already been audited by the desk or limited audit is still subject to be audited by a comprehensive tax audit.

Comprehensive / final tax audit

A final audit is conducted to review the detail of the Company’s transactions and would “close off” the tax year. A comprehensive or final audit can include two or three years of prior returns in one audit. In our experience, the Tax Office predominantly adopts a risk based approach, and the size of the Company’s operations is a criterion on which the Tax Office determines whether to conduct a tax audit.

A tax year which has been audited by the comprehensive/ final tax audit is considered as “closed”.

Audit process

A typical audit commences with a notification to conduct the tax audit from the Tax Office, together with a list of the required documents. Taxpayers are advised to contact their tax advisor immediately when a tax audit commences or any audit related correspondence is received from the tax authority. There will be an audit visit at the taxpayers’ office to discuss and obtain documents in relation to the tax audit. Thereafter, there will be a discussion or clarification from the taxpayers to the tax authority either at the Company’s office or Tax Office after the review of the documents. Each audit can take up to one or two years.

Appeals

Rules and procedure for administrative protest against the Tax Office’s reassessments have recently been set out in Prakas 1470 GDT issued in November 2015, where an Appeal Office will be responsible for processing taxpayers’ protest, but the ultimate decision lies with the GDT’s Director General. On the other hand, a somewhat independent “Committee for Tax Arbitration” has also been officially set up, for taxpayers who are dissatisfied with the GDT’s resolution, to further protest, however currently the committee has not been fully functional yet.

Tax Governance

None

Current Topics for Focus by Tax Authorities

Key focus areas for the tax authority in tax audits conducted in recent years have included:

Related party transactions

Sale revenue is lower than cost of sale

Deductibility of large amounts of expenses

Salary tax of expatriates

Withholding tax obligations – particularly on cross border payments for management and technical services

Income recognition per accounts and tax declaration purposes

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