



Investing in Cambodia

# Seize the opportunity

2020 and beyond

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# About KPMG

## Who we are

KPMG is one of the world's leading professional services firms. We are proud of our firm's strong and established reputation, a reputation that is built on a long history of independence, integrity and objectivity.

It is what drives us to deliver clear and practical advice to help our clients grow and succeed in their chosen field.

It is what makes us committed and successful leaders in our profession.

## Global presence

KPMG is a global network of professional services firms providing Audit, Tax and Advisory services.

We have outstanding professionals and partners working together to deliver value in over 147 countries worldwide.

KPMG's member firms aim to provide clients with a globally consistent set of multidisciplinary financial and accounting services, based on deep industry knowledge.

## KPMG in Cambodia

KPMG in Cambodia was established in 1994. Today, with over 300 professionals, KPMG is one of the largest professional services firms in Cambodia with a balanced mix of international and local clients.

In Cambodia, our local experience, enhanced by technical and industry knowledge of our global network, means we have the tools and knowledge to gain a deep understanding of our clients' businesses. It enables our professionals to turn knowledge into value for the benefits of our clients, our people, and the capital markets.

## Our leadership

KPMG in Cambodia commits to invest in our people, services and quality to help our clients achieve sustainable and strong business performance.

We are also committed to appropriately delivering on our capital markets responsibilities, as well as assisting our clients in effectively communicating true business performance to stakeholders.

## Supporting our communities

KPMG in Cambodia has a long history of supporting the communities in which we live and work. This contribution takes the form of our people's time, knowledge and experience, as well as our financial donations and grants.



**Lim Chew Teng**  
Managing Partner  
Audit services

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# Cambodia economy overview

Cambodia is a member of Association of Southeast Asian Nations (ASEAN) and the World Trade Organization (WTO), and enjoys Most Favored Nation (MFN) status and Generalized System of Preferences (GSP) program benefits and Everything But Arms (EBA) program benefits when trading with other countries, especially the United States (US) and countries in the European Union (EU).

Cambodia's GDP grew by **6.9%** in 2019 and is projected to be **6.6%** for the year 2020. The inflation rate was **2.4%** in 2019 and is projected to be **2.7%** in 2020.

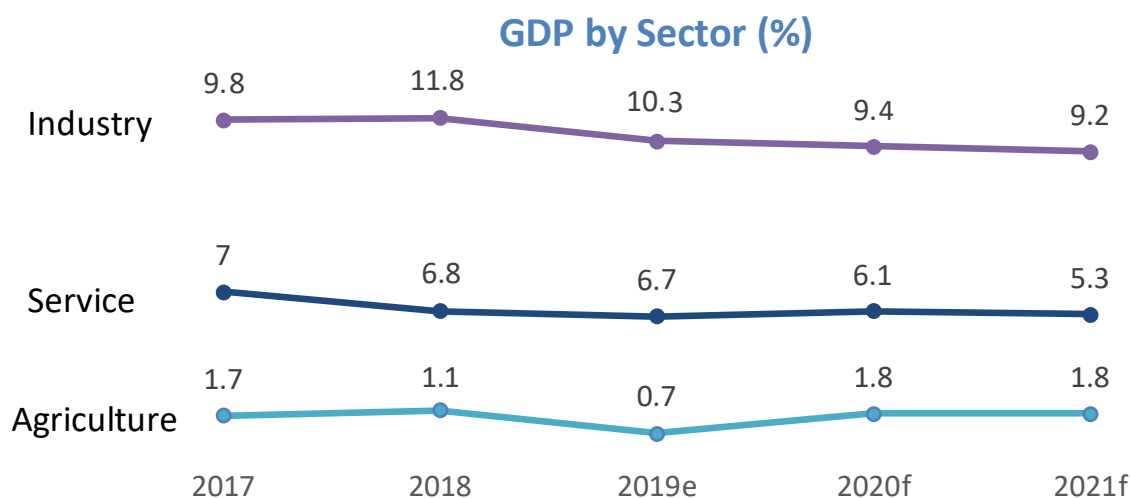
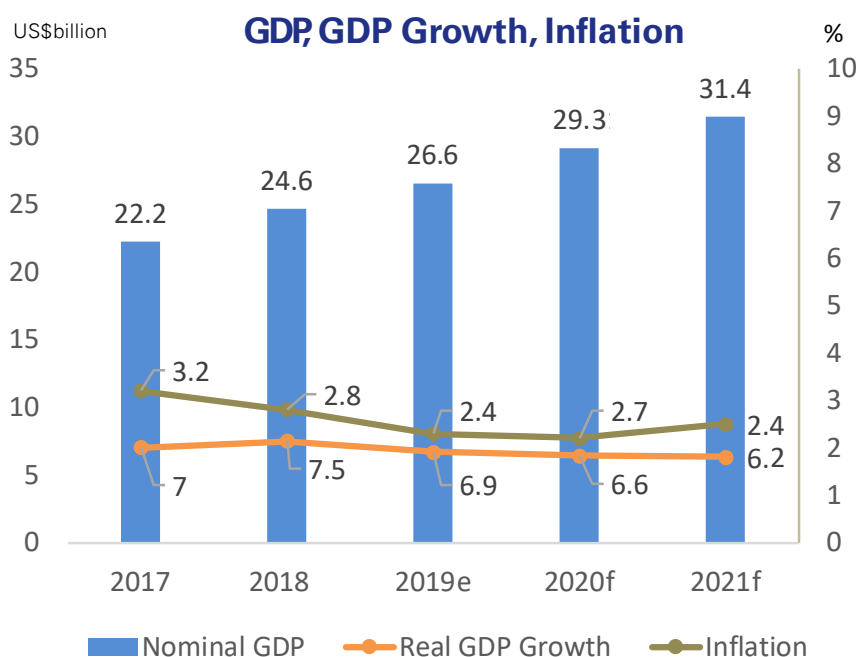
## Market Overview

### Economy

Cambodia's free-market economy with its enviable GDP growth continues to attract strong foreign investment, particularly from ASEAN and other Asian countries.

Cambodia has a strong labor protection regime, and while wages are rising with the development

of the economy, the country still remains competitive in the region. In response to global trade concerns, the government has introduced a draft of measures to reduce production and supply costs and encourage further foreign investment.



Source: Economic Intelligence Unit

## Banking System

Limited access to capital is one of the constraints of doing business in Cambodia. Commercial banks are primary sources of funding.

From March 2018, the minimum capital requirements for banking institutions are as follows:

- US\$50 million for commercial bank incorporated as foreign branch, whose parent bank is rated "Investment Grade"
- US\$75 million for commercial bank incorporated as foreign branch, whose parent bank is NOT rated "Investment Grade"; a foreign subsidiary or a local company
- US\$15 million for specialized bank incorporated locally
- US\$30 million for micro-finance deposit taking institutions
- US\$1.5 million for micro-finance institutions.

## Currency

The local currency, Khmer Riel (KHR), was introduced in 1980. The Cambodian economy is classified as partially dollarized, given that the US dollar circulates in conjunction with an official national currency, as opposed to fully dollarized economies where the dollar is the only legal tender. 80% of deposits and credits in the banking system are made in United States Dollars (US\$).

## Land Ownership

The law restricts foreigners from owning land in Cambodia. Foreigners are allowed to have a renewable long-term lease for up to 50 years plus 50 years and freehold ownership of certain condominiums.

## Business Sectors

Garment, light manufacturing, automotive parts, luggage and furniture continue to be the country's key growth drivers, and attract new foreign investments each year.

## Advantages of investing in Cambodia

**ASEAN** membership offers **regional trade** benefits



**WTO** member since **2004** increasing trade integrations



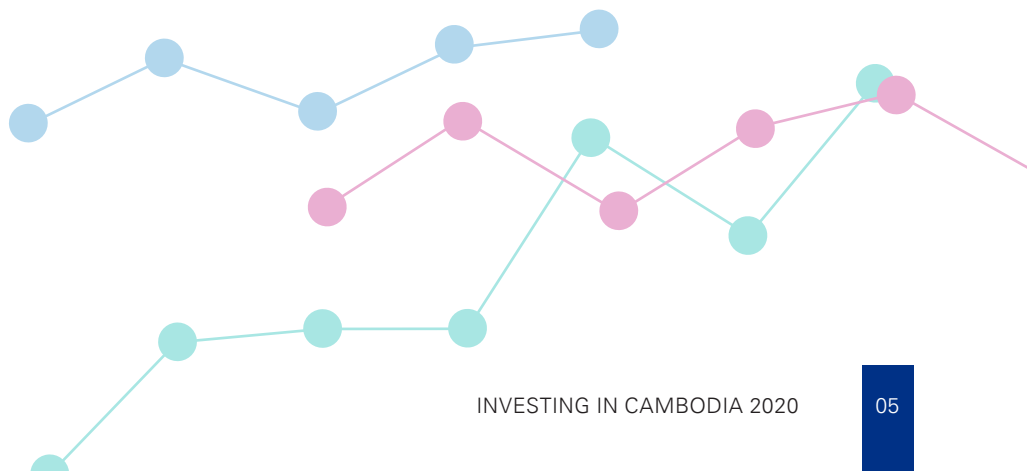
**Duty free** or preferential export access to most developed economies



**Favorable** investment environment



One of **Asia's lowest labor costs** and a dynamic workforce



The Cambodia Securities Exchange (CSX) is a joint venture between the Cambodian Ministry of Economy and Finance, which holds 55%, and the Korea Exchange (KRX), which holds 45%.

## Cambodia Securities Exchange (CSX)

### The Regulator

The Securities and Exchange Commission of Cambodia (SECC) regulates the Cambodia Securities Exchange (CSX) in Cambodia. The SECC is established under the law on the Issuance and Trading of Non-government Securities.

### Companies Listed on CSX

As of March 2020, there are five Companies listed on the CSX. Three State owned enterprise (SOEs) - Phnom Penh Water Supply Authority (PWSA), Phnom Penh Autonomous Port (PPAP), Sihanoukville, Autonomous Port (PAS) and two private companies - Grand Twins International (Cambodia) Plc (GTI) and Phnom Penh SEZ Plc (PPSP).

### Corporate bond

As of 30 March 2020, three (3) companies issued corporate bond on the CSX – Hattha Kasekor Limited (HKL), LOLC (Cambodia) Plc. (LOLC), and Advanced Bank of Asia Limited (ABA).



**Nge Huy**  
Partner  
Audit services

## Key Operating Rules



### Market hours, trading times

Market is open from 8:00 am to 3:00 pm, Monday-Friday and divided into three sessions.



### Minimum trading unit

Price variance ranged from KHR10 to KHR1000 dependent on share price.



### Daily price limit

+/- 10% of the base price, or KHR10 where the base price is below KHR100.

## Key Settlement Rules



### Settlement time

Settlement is performed two days after the trade, T+2, at 8:30am



### Account opening

Securities firms open accounts with a cash settlement agent and with the securities depository



### Good faith deposit

A good faith deposit of 100% of the cash value of the trade is required from the buyer and 100% of the securities to be traded required from the seller



### Clearing, settlement fees

Clearing fees are 0.05% of the value of the settled trade

### Stock Trading on the Exchange

The SECC requires trades on the stock exchange to be settled after two days.

ACLEDA Bank Plc, Canadia Bank Plc, Bank for Investment and Development of Cambodia, Cambodian Public Bank Plc, and the B.I.C (Cambodia) Bank Plc are licensed as cash settlement agents by the SECC.

ACLEDA Bank Plc., Tricor Securities Services Plc., and Phnom Penh Securities Plc. are licensed as securities registrar, transfer agent, and paying agent by the SECC.

### Tax Incentives for Listing on CSX

Listed entities that issue stock and/or corporate bonds enjoy the following benefits:

- 50% reduction of Tol for up to 3 years from 4 January 2019 (date of Sub-Decree on tax incentive).
- Various tax debt waiver for companies listing within 3 years from 4 January 2019 as follows:
  - For N-3 to N-10 years for enterprises who meet the criteria for listing in the primary market.
  - For N-2 to N-10 years for small and medium enterprises who meet the criteria for listing in the secondary market. Year N is the year of IPO.
- 50% reduction of withholding tax on interest and/or dividend derived from holding and/or buying securities for three (3) years from 4 January 2019.

(Certain conditions are applied)

### Currency of the Exchange

To increase the use of the local currency, all stock quotations on the CSX must be in Khmer Riel (KHR) only.

SECC will help alleviate some of this risk at the outset by allowing dollar settlements by negotiation for the first three (3) years.

### Securities Firms

The SECC granted licenses to six underwriters and various market participants.

## Key Requirements for listing on the CSX

A Listing Entity, which intends to transfer from Growth Board to Main Board, shall meet the listing criteria of its intended transferring market and submit the application to the Cambodian Stock Exchange.

### Main Board

KHR30 billion (US\$7.5 million)

- KHR2 billion (US\$500,000) for the latest year; and
- Cumulative KHR3 billion (US\$750,000) for the latest two (2) years
- 200 shareholders; and
- 7% of the total voting shares

Two (2) years

KHR4,000,000 (US\$1,000)

- 0.010% - 0.030% of total market capitalisation
- Minimum KHR10,000,000 (US\$2,500)

- 0.005% - 0.020% of total market capitalization
- Minimum KHR3,000,000 (US\$750)

- Board members: At least 5
- Independent director: > 1/5 of total number of directors
- If foreign independent director: > 6 months of working experiences in Cambodia

- Audit Committee
- Nomination and Remuneration Committee
- Board may consider to establish Risk Management Committee and other Committees as necessary and as required by SECC

### Growth Board

KHR2 billion (US\$500,000)

- Positive net income for latest year; or
- Positive operating cash flow & gross profit margin 10%

- 100 shareholders; and
- 10% of the total voting shares

One (1) year

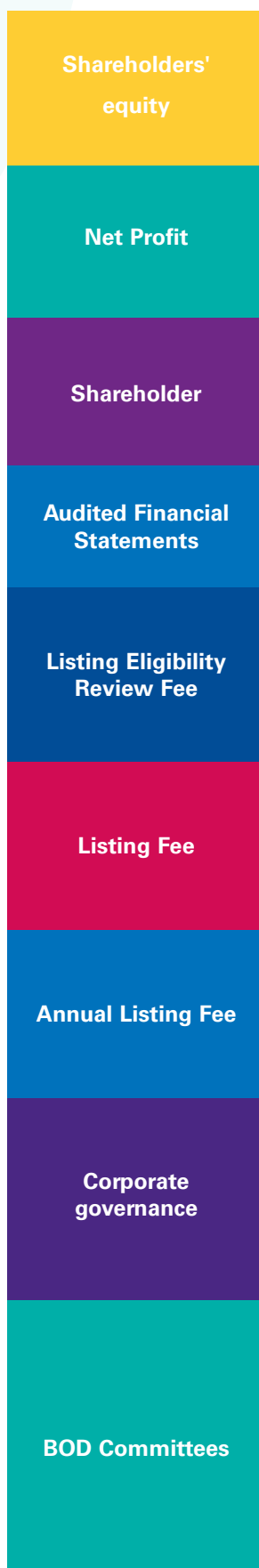
KHR2,000,000 (US\$500)

KHR4,000,000 or 0.025% of the total market cap, whichever is larger

KHR4,000,000 or 0.015% of the total market capitalization, whichever is larger

- Board members: At least 3
- Independent director:  $\geq 1$  or 1/5 if board members  $\geq 5$
- Non-executive director (as representative of the private shareholders)  $\geq 1$

- Audit Committee
- Risk Management Committee: Assets > KHR200 billion (US\$50 million)
- Nomination Committee (optional)
- Board may consider to establish it and other Committees as necessary and as required by SECC





# Setting up business in Cambodia

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Many businesses require a license or permit to operate, including areas such as banking and financial institutions, tour agencies, real estate agencies, telecommunication operators, industrial factories, etc.

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**Michael Gordon**

Senior Advisor

Tax and Corporate services

## Commonly used business entities

A new entity is registered with the Cambodian Ministry of Commerce (MoC). Approval for registration usually takes approximately ten (10) working days upon submission of all required documents. In general, businesses operate in Cambodia via the following vehicles:

- A company or subsidiary incorporated in Cambodia
- A branch of a company incorporated outside Cambodia
- A representative office of a company incorporated outside Cambodia.

## Online business registration with the MoC

The MoC uses an Online Business Registration Service for registration and management of all commercial business entities, including to keep their official information up to date, and complete filings, without having to physically attend the MoC.

Payment of registration fees can be made via the electronic banking system. A payment receipt is issued by an automated system as evidence of payment.

## Main legal formalities for the new establishment and registration

### 1. Company

The Law on Commercial Enterprise is silent on minimum capital requirement. However, if the Memorandum and Articles of Association fails to state number and price of the shares, the company must issue a minimum of one thousand (1,000) shares with a par value of not less than four thousand (4,000) KHR per share. Note that for certain licensed activities, there are minimum capital requirements. Generally, there is no restriction on foreign ownership, except for land holding. The name of the company must first be cleared with the MoC.

A memorandum and articles of association has to be prepared for the company and lodged with the MoC, together with the prescribed information for incorporation.

### 2. Branch

For branch registration, relevant documents and information of the parent company and the branch are required to be provided to the MoC. The Branch uses the name of its principal e.g. "Branch of XYZ Co.Ltd."

A Branch office can carry out trading activities such as sales and purchase of goods and services.

### 3. Representative Office (RO)

A RO is prohibited from undertaking profit making activities including buying or selling of goods or services and construction. A RO uses the name of its principal e.g. "Representative Office of XYZ Co.Ltd."

## Requirements for foreign investors

For a foreign company, the full name, address, nationality of the foreign investor and the number of shares held in the company are required to be disclosed to the MoC.

For a Branch, the place of registration of the foreign company, details of its structure and other information in the prescribed documents need to be disclosed to the MoC.

For a RO, the requirements are the same as for a Branch.

If the company or branch needs to apply for a particular license to carry out its business operations, additional information from the foreign investor may have to be provided to the relevant government authority.

## Currency/monetary restrictions

Currently, Cambodia does not have any restrictions on funds transfer (i.e. the repatriation of profits or capital from Cambodia). Foreign currencies may be freely purchased via the banking system and there are no ordinary restrictions on foreign exchange operations.

# Accounting & reporting requirements

## Financial statements

The National Accounting Council (NAC) of Cambodia has adopted International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities (SMEs) and 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). With the exception of non-profit organizations, public accountability entities and specialized banks are required to adopt CIFRS while non-public accountability entities that meet the audit requirements below are required to adopt CIFRS for SMEs or opt to use CIFRS, if preferred. Non-profit organizations established in compliance with the Law on Associations and NGOs are required to prepare financial statements and a report of operating activities but are permitted to follow an accounting framework of their choice, following the issuance of Notification No. 30 from the NAC to postpone the implementation of the Cambodian Financial Reporting Standards for Not-For-Profit Entities (CFRS for NFPEs) on 21 January 2019. Nevertheless, an updated Accounting Framework to govern such entities is expected to be released by the NAC in the near future.

From 1 January 2019, Financial Institutions and General Insurance Companies are also required to adopt CIFRS (for Banks, deposit taking Microfinance Institutions, and General Insurance Companies) and CIFRS for SME (for non-deposit taking Microfinance Institutions and Leasing Companies) following the end of a transition period previously granted to these entities by the NAC.

## Law on Accounting & Auditing

The Law on Accounting and Auditing sets forth certain accounting requirements which include, but limited to, the following:

- Enterprises and not-for-profit organizations are required to prepare financial statements within three (3) months following the year-end.
- Financial statements form the basis for fulfilling tax obligations.
- Accounting records must be maintained and the underlying transactions must be supported by proper documentation.
- 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.
- Enterprises and not-for-profit organizations are obligated to maintain their accounting records for a period of ten (10) years.

## Book year

Generally, the tax and accounting year is the calendar year. The tax and accounting year end does not need to coincide with the calendar year, although any change must be approved.

## Audit requirements

All enterprises that meet two of the three criteria set by Prakas No. 643 of the Ministry of Economy and Finance, must submit their annual financial statements to be audited by an independent auditor (see the illustration below). The audit must be carried out by an auditor registered with the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA).

For Qualified Investment Projects (QIP) registered with the Council for the Development of Cambodia (CDC) 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 KICPAA.



# Other compliance requirements

## National Social Security Fund (NSSF)

All entities with at least one (1) employee are required to register with the NSSF, file monthly reports, and make monthly contributions to the NSSF for two social security schemes: the "occupational risk scheme" and "healthcare scheme". The payment of monthly contributions to the NSSF must be performed by the 15th of the following month and the employee report must be reported to the NSSF by the 20th of the following month.

## Certificate of Compliance (CoC)

Annually, all QIPs are required to obtain a CoC from the CDC in order to receive the investment incentives granted under the investment license. The CoC is intended to provide confirmation that the QIP has complied with relevant tax and investment regulations.

## Annual Declaration of Commercial Enterprise (ADCE)

All entities registered with the MoC are required to prepare and file the ADCE with the MoC once a year. The filing must be done within three (3) months from the due date as notified by an email from the MoC.

## Labor law compliance

Enterprises with at least one (1) employee are required to register with the Ministry of Labor and Vocational Training (MLVT). After the initial registration, enterprises are required to notify the labor office on an ongoing basis of any relevant changes, such as staff movements. Enterprises wishing to employ foreign workers must apply for a foreign manpower quota annually, and for work permits for foreign staff.

Other obligations for employers may include registration of internal work rules and fulfilling trade union and staff representative election requirements.



# Cambodia Tax Guide

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Taxpayers will be required to submit and pay taxes to the General Department of Taxation (GDT) on an annual and monthly basis.

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## Mona Tan

### Partner

Tax and Corporate services



The principal taxation law of Cambodia is the Law on Taxation (LoT) adopted by the National Assembly in January 1997. In 2000, the Ministry of Economy and Finance issued a Prakas (regulation) on Tax on Profit (currently called “Tax on Income”) to clarify certain tax provisions stipulated in the 1997 Law. The Law on Amendment on the LoT (LALoT) was signed into Law in March 2003, and the revised Prakas on Tax on Profit was issued in December 2003. Subsequently, certain Laws on Financial Management have included amendments and updates to the existing Law.

### Overview

Subsequent to the promulgation of the 2016, 2017, 2018, 2019, and 2020 Law on Financial Management (LoFM), the tax regime system received major restructuring.

Currently, there is only one tax regime, the Self-Assessment Regime (SAR)\*, which is further divided into three classes of taxpayers:

Classes	Turnover criteria	Accounting standard
Small taxpayer**	From KHR250 million (~US\$62,500) to KHR700 million*** (~US\$175,000) per annum, or more than KHR60 million (~US\$15,000) for three consecutive months within the current calendar year	Simplified accounting standard
Medium taxpayer	From KHR700 million (~US\$175,000) to KHR4,000 million (~US\$1,000,000) per annum	International accounting standard of Cambodia
Large taxpayer	More than KHR4,000 million (~US\$1,000,000) per annum	International accounting standard of Cambodia

The classification is also dependent upon the form of the enterprise as well as the business activity.

Medium and large taxpayers will be required to submit and pay taxes to the General Department of Taxation (GDT) on an annual and monthly basis. This mainly involves the following taxes:

- Annual Tax on Income or Minimum Tax (see 1)
- Annual Patent Tax (see 3)
- Monthly Prepayment of Tax on Income (see 1)
- Monthly Tax on Salary and Fringe Benefit (see 2)
- Monthly Value Added Tax (see 3)
- Monthly Withholding Tax (see 3)

\* Previously it was called “Real Regime Tax System,” and then changed to SAR under the 2017 LoFM

\*\* Small taxpayer is required to submit a monthly tax return in one single form, called form “TRS 01”

\*\*\* New turnover threshold as per Prakas no. 025, amendment of taxpayer classification, dated 24 January 2018.

# 01 Taxation of companies

## Introduction

Corporate taxpayers in Cambodia are classified as either resident taxpayers, or non-resident taxpayers.

A resident taxpayer is primarily an enterprise that has a place of management and carries on business in Cambodia, as defined below. A non-resident taxpayer is an enterprise that derives Cambodian source income, but does not have a place of management in Cambodia.

A non-resident taxpayer will be deemed to be Cambodian resident for tax purposes if it is found to have a Permanent Establishment (PE) in Cambodia (see 6 for PE definition).

A resident taxpayer is subject to Tax on Income (ToI) or Corporate Income Tax (CIT) on income derived from both Cambodian and foreign sources, whereas, a non-resident taxpayer is subject to ToI/CIT in respect of its Cambodian source income only.

## Residence

A company is resident in Cambodia if:

- It is organized or managed in Cambodia; or
- It has its principal place of business in Cambodia.

## Taxable Income

Taxable income is the net income realised from all results of business activities and other non-business activities of the physical person or legal person.

Taxable income includes capital gains, interest, rent, royalty, and income from financial assets or investment assets including immovable property.

For legal persons, the taxable income shall be the result from adjustment of accounting results in the tax year in accordance with the provision on taxation.

For physical persons, taxable income is the result from total income in the tax year offset by expenditures and other allowance (to be determined by a Sub-Decree).

Rules and procedures for taxation are further determined by Prakas (regulation) by the Minister of Economy and Finance.

## Capital Gains Tax

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 estate property and other assets are treated as ordinary income and are therefore subject to tax at the prevailing ToI rate.

## Dividends

A dividend is defined as a distribution of property or money, made by a legal person to a shareholder with the exception of distribution of capital or equity interest in a complete liquidation of the Company.

Dividends received from non-resident companies are subject to income tax in Cambodia. A credit is allowed for tax paid overseas on foreign source income, subject to certain conditions.

## Exempt Income

Dividends received from resident companies are not subject to income tax.

## Deductions

### Allowable Deductions

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 income 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.

### Non-deductible Expenses

Non-deductible expenses include:

- Increase in provisions
- Any expense on activities generally considered to be amusement, recreation, entertainment
- Personal expenses, except for fringe benefits which are subject to fringe benefit tax
- Any loss on sale or exchange of property, directly or indirectly, between related parties
- Penalties, additional tax and late payment interest imposed for violation of the LoT
- Non-deductible tax expenses
- Donations, grants or subsidies and
- Extravagant and / or unrelated business expenses.

## Losses

Tax losses can be carried forward for a maximum of five (5) years (except for tax loss of petroleum and mineral resource operation as discussed in the page). Losses cannot be carried back. Tax losses may be forfeited upon a change in ownership of the business or if there is a change in business activity.

Tax losses will also be forfeited in the event a taxpayer is subject to a unilateral tax assessment.

## Grouping/Consolidation

There are no grouping or consolidation provisions in Cambodia.

## Tax Depreciation/Capital Allowances

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 class 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.

## Amortization of Expenditure

Intangible assets, including preliminary and formation expenses, R&D, patents, copyrights, trademarks, computer software, and purchased goodwill can be amortized over the useful life of the property. If the life of the intangible assets cannot be determined, a tax depreciation rate of 10% based on the straight-line method is used.

The petroleum and mineral resources sectors are subject to a specific tax regime for expensing of exploration and development costs.

## Charitable contribution

The deductibility of charitable contribution expense is limited to 5% of the taxable income after tax adjustments and before deduction of charitable contribution itself.

Unutilized charitable contribution expense cannot be carried forward as a deduction against taxable income in future year.

## Interest Expense

The allowable interest deduction on loan shall be allowed as follows:

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

The GDT will issue the market interest rate annually.

Interest rate between related parties must also be in accordance with the arm's length principle following rules and regulations provided per Prakas 986 (Please refer to section 6 below) and there are documentations that taxpayers are required to maintain to support loans between related parties;

- Loan agreement with clear terms of borrowing;
- Business plan in relation to the loan;
- Documents to explain the basis of the interest rate; and
- Board of Director's resolution.

The interest expense as per points 1&2 above are still subject to below limitation of the interest deduction.

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

The petroleum and mineral resources sectors are subject to a specific tax regime for interest expense.

## Tax Rates

The Cambodian Tax Law provides the following corporate income tax or annual Tol rates:

- 20% on income realized by a legal person.
- 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 QIP during the tax exemption period as determined by CDC.
- For insurance enterprises, Tol shall be:
  - 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.

Foreign company branches are generally subject to Tol on the same basis as a company as noted above, for instance remittance of profit to the overseas Head Office will be subject to the Advance Tax on Dividend Distribution (ATDD) unless the profit has been subject to and fully paid Tol. Furthermore, if the branch is making transfer of Cambodian sourced income to its overseas Head Office it is also required to withhold the 14% WHT.

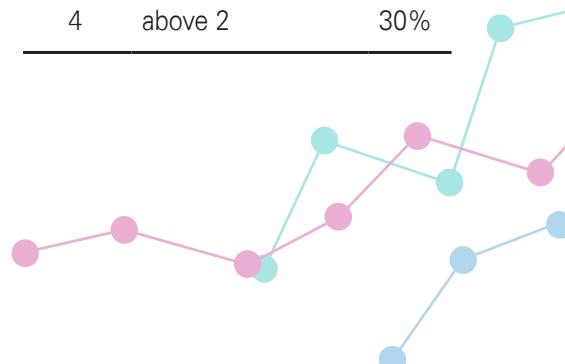
## Tax on Petroleum and Mineral Resources Operations

With the 2018 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, 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 Profit at a progressive tax rate by tranche based

Tranche	Excess profit 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%



\* Loss carried forward is allowed until the tenth year for petroleum operations and the fifth 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 treatments, for example, depreciation, deductions, transfer of interest, etc. that is applied for this sector as recently provided under the 2018 LoFM.

### ***Sales agents supplying goods on behalf of principals***

Recognised agents (i.e. travel agents, sales depots), supplying goods or services on behalf of principals, are not required to declare and pay taxes on the sales on behalf. They are only obligated to collect those taxes on behalf of the principals and pay PTol and Tol on commissions earned from the principals.

To get recognition as sale agents, enterprises must fulfill certain conditions such as being a medium or large taxpayers, having contracts with the principals, no change of ownership of the goods, maintain invoices compliance, and keeping inventory of the goods. A sales agent can apply and receive agent certificate from the GDT which is valid for 2 years. Without proper recognition and certificate, the sales agents would be liable to all kinds of taxes relating to sales on behalf as if these sales were their own income.

## **Tax Administration**

### ***Tax Identification Number***

Business entities are required to register with the tax administration within fifteen (15) working days, from the commencement of economic activities, or after receiving the registration approval certificate or approval letter from the relevant ministries or institutions.

### ***Tax Returns***

The annual tax return must be filed within 3 months following the tax year. The tax year is generally a calendar year. The return must be filed irrespective of whether the company is making a profit or loss.

1: Tax year is calendar year, but an enterprise can apply for a tax year other than calendar year, for example, to be consistent with its parent company/ if the foreign parent company owns more than 51% equity shares.

2: The minimum tax shall be imposed on taxpayer who maintain "improper" accounting records (i.e. effective from the tax year 2017 onwards). Under the LoFM 2018, petroleum and mineral resource operations are not subject to minimum tax.

3: Suspensions: 1% PTol is suspended for enterprises in the agricultural sector, both for domestic supply and for export such as: planting, producing and supplying certain agricultural products for 5 years starting from January 2019 and the garment industry such as textile, garment, footwear, handbag and hat for the purpose of export until the end of 2022.

## ***Payment of Tax***

A company is subject to a monthly prepayment of Tol (PTol) during the year, which is self-assessed at 1% on monthly turnover inclusive of all taxes except for Value Added Tax (VAT).

Insurance companies are required to declare and pay the monthly PTol at the rate of 5% on gross premiums from insurance or re-insurance income and at the rate of 1% on other related income as indicated in Tax Rate Section above.

Payments of PTol are due by the 20th day of the following month.

The liquidation of the Tol is the balance of tax payable after deduction of all tax credits and PTol and must be paid upon submitting the annual Tol return to the GDT which must be done by 31st March in the year following the tax year<sup>1</sup>.

The minimum tax<sup>2</sup> is a separate and distinct tax from the Tol, and is payable by companies regardless of whether they are in a profit or loss situation. The minimum tax is calculated at 1% on annual turnover inclusive of all taxes except for VAT. However, if the Tol is greater than the minimum tax, the minimum tax is not payable. The minimum tax is calculated at year-end, however it should be totally liquidated by the monthly PTol.

## ***Tax Credits***

Tax paid overseas on foreign source income is available as a tax credit, subject to the taxpayer providing sufficient evidence to substantiate the foreign tax paid. The tax credit is calculated separately for each foreign country and is the lower of the foreign tax paid and Cambodian tax payable on foreign source income.

## ***Record Keeping***

All books of accounts, accounting records and other documents must be maintained in the Khmer language and in KHR, and kept for a period of ten (10) years.





**Land Area**  
Approximately  
**181,035** km<sup>2</sup>

**Population**  
(2019e)  
**16.5** million  
(2020(f))  
**16.7** million

**Capital City**  
**Phnom Penh**  
Provinces & Cities  
**25**

**Trade Balance**  
Imports US\$ 22 billion (2019e)  
Exports US\$ 14.5 billion (2019e)

**Minimum Wages**  
US\$190/month (2020)



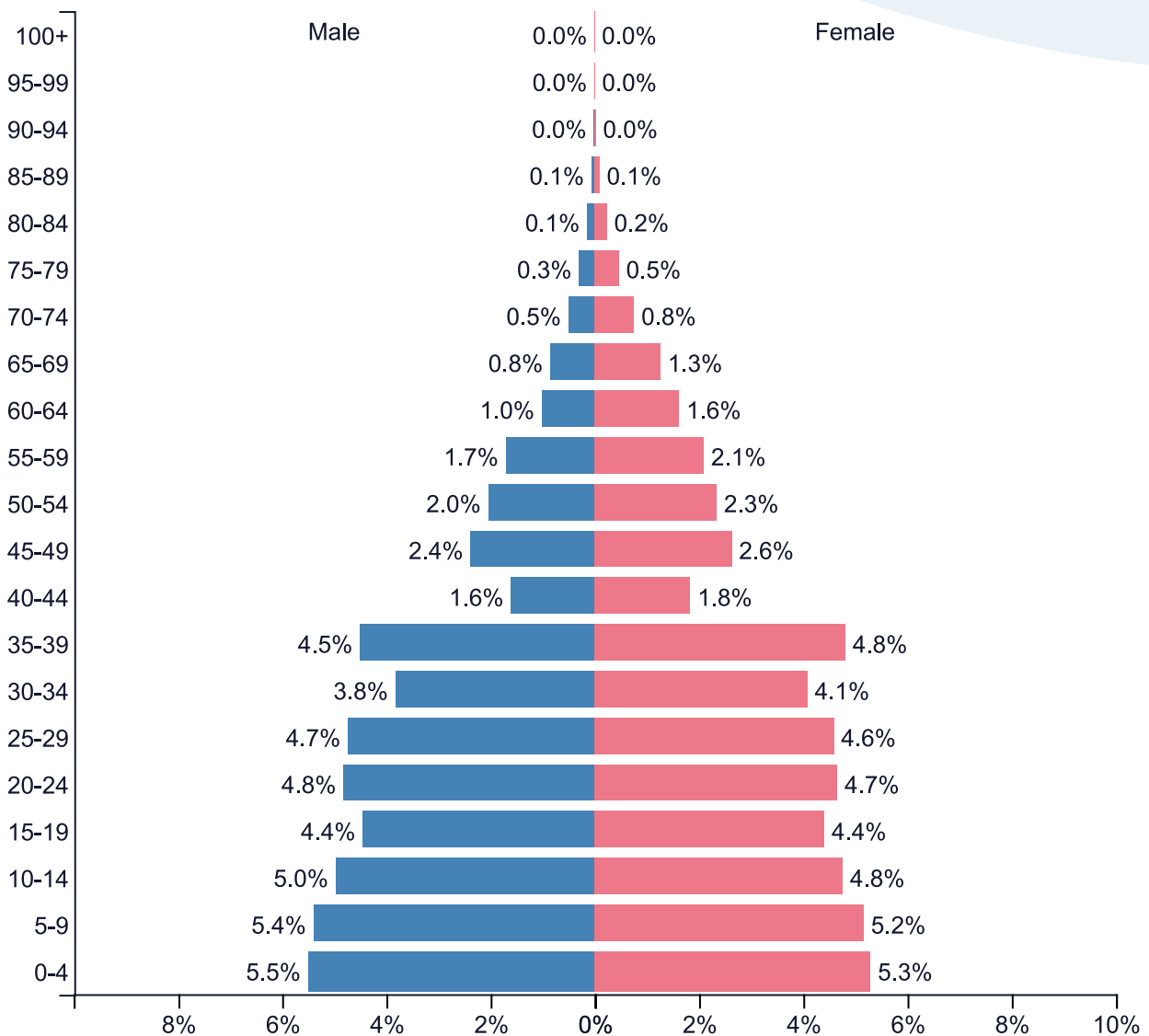
**GDP Growth %**  
**6.9%** (2019e)  
**6.6%** (2020f)

**GDP**  
US\$ 26.6 billion (2019e)  
US\$ 31.4 billion (2021f)

**GDP/capita**  
US\$1,510 (2018)

**Exchange rate**  
US\$ to KHR  
**4,060**  
(2019 avg.)

**Inflation**  
**2.4%** (2019)



**Population of Cambodia 2019**

Source: PopulationPyramid.net



# 02 Taxation of individuals

## Introduction

Individual residents of Cambodia are liable for personal income tax/ tax on salary (ToS) on Cambodian and foreign source income, whereas non-residents are subject to income tax on Cambodian source income only. A credit for foreign income tax paid is allowed against Cambodian income tax.

The tax credit is calculated separately for each foreign country and is the lower of the foreign tax paid and Cambodian tax payable on foreign source income.

Employers are required to withhold income tax from salaries and other benefits paid to employees. Salary is taxed according to progressive tax rates ranging from 5% to 20%.

### Resident/Non-Resident

A person is a resident of Cambodia if the person is "domiciled in" or has a "principal place of abode" in Cambodia, or the person is present in Cambodia for more than 182 days during any 12 month period.

A non-resident means any person who does not fall under either of the above stated criteria.

### Employment Income/Employee

Individuals receiving remuneration in the course of employment are subject to personal income tax known as tax on salary. Remuneration includes salary, wage, bonus, overtime and other compensation. A fringe benefit tax on employer-provided cars, housing, low interest loans, and free, subsidized or discounted goods and services is levied on employers according to the taxable value of the fringe benefits provided to their employees. The tax rate is currently 20% and it is payable monthly. The actual cost of providing the benefit will normally be deductible for the employer except for the fringe benefit tax.

### Exempt Income

Employment related payments received by a tax resident that are not subject to income tax include:

- Reimbursement of business expenses by the employer, provided that the costs are incurred in the course of employment, the amounts are not excessive and they can be substantiated;
- Indemnity for layoff within the limit as stated in the Labor Law;
- Additional remuneration received with social characteristics as provided in the Labor Law;
- Supply of free or subsidized uniforms or special professional equipment used in the course of employment; and
- Flat allowances for mission and travel received in the course of employment.

\* Employees under "Undermined Duration Contract" (UDC) are entitled to annual seniority payments, including existing employees before 2019 and newer employees. ToS shall be exempted the seniority payment for Khmer employees.

The following allowances may be exempted from either ToS or FBT:

- Commuting expenses (between home & workplace), accommodation allowances, and accommodation provided within the Company's premise (all in accordance with Labor Law),
- Meal allowances where provided to all worker-employees regardless of position/function,
- Social security or welfare fund (within the limit of the law),
- Health insurance or life/health insurance premium where provided to every employee regardless of position or function,
- Baby care allowance or baby nursery expense (in accordance with Labour Law)

Companies and enterprises are required to submit an allowance policy for the above allowances to the GDT to be eligible to the above tax reliefs.

### Deductions

Employees are not allowed any deductions against their salary income as employees are not required to submit annual tax returns.



### Tax Administration

#### Returns and Assessments

The salary and fringe benefit tax return and payment are due to be filed and paid to the GDT by the 20th day of the following month. Currently, the Cambodian Tax Law does not require a resident individual to submit an annual personal income tax return to the GDT. Accordingly, the monthly salary tax deduction is considered to be a final tax for individuals.

#### Personal Allowances and Rebates of Tax

The following relief is provided to a resident employee:

Relief for the month	KHR
Child relief for each child (14 years old or 25 years old if still at school)	 150,000
Dependent spouse (must be housewife)	 150,000

### Tax Rates

#### Residents

The ToS rates are as follows:

Taxable Income for the Month (KHR)	Progressive Tax
From 0 - 1,300,000	0%
From 1,300,001 - 2,000,000	5%
From 2,000,001 - 8,500,000	10%
From 8,500,001 - 12,500,000	15%
Over 12,500,000	20%

#### Non-residents

Non-residents are taxed on salary from Cambodian sources at a flat rate of 20%.

# 03 Indirect and other taxes

## Value Added Tax (VAT)

VAT is chargeable on a wide range of goods and services supplied in Cambodia and on the importation of goods. The basic principle of VAT is to charge tax at each stage of production, allowing each supplier credit for the tax paid, so that the VAT eventually impacts the final consumer.

Taxable supplies attract VAT at either the standard rate of 10% or the zero rate. The zero rate applies to export of goods and services and certain charges in relation to international transport of people and goods. Also, this zero rate is applicable for any goods and services supplied by supporting industries QIP/contractors to particular export industries. For supply of services to use zero rate, the services must have been performed outside Cambodia or performed for uses outside Cambodia and the services are not for the business purpose or economic interest inside Cambodia (the burden of proof is on the taxpayers). Documents such as contracts, bank statements, invoices, etc., must also be maintained for the tax administration's review.

VAT on certain supply and import of certain agricultural products shall be borne by the State (i.e. State Charges).

Exempt supplies are not subject to VAT and include:

- Public postal service;
- Hospital, clinic, medical, and dental services and sales of medical and dental goods incidental to the performance of such services;
- Passenger transportation services by a wholly state-owned public transportation system;
- Insurance services;
- Primary financial services;
- Importation of articles for personal use that are exempt from customs duties;
- Non-profit activities for public interest that have been recognized by the Ministry of Economy and Finance;
- Educational services;
- Supply of unprocessed agricultural products;
- Supply of electricity; and
- Supply of water for public use; and solid-liquid trash collection or cleaning service

Enterprises providing taxable supplies of goods and services are required to register for VAT if they meet the criteria below:

- Corporations, importers, exporters and investment companies;
- Taxpayers with turnover in respect of goods sold exceeding KHR125 million for the preceding three consecutive months or in the next three consecutive months;
- Taxpayers with turnover in respect of services provided exceeding KHR60 million for the preceding three consecutive months or in the next three consecutive months; and
- Taxpayers that have contracts with government with a total taxable turnover exceeding of KHR30 million.

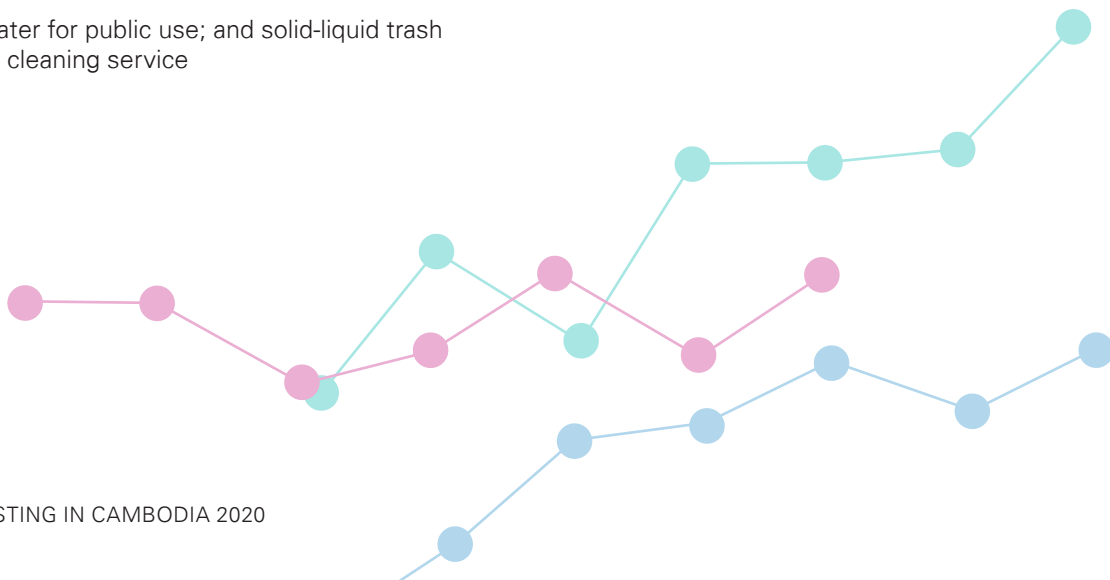
VAT registration must be made at the commencement of business operation or within 30 days in which the taxpayer becomes a taxable person.

VAT returns and payment are due to be filed and paid to the GDT by the 20th day of the following month.

VAT is payable at 10% on the value of imported goods, including any customs duty, insurance and freight charges.

The GDT set up an online VAT management system to manage taxpayers' VAT refund requests and VAT credit utilisation. GDT issued Notification and Instruction in January 2019 for implementation without any specific implementation dates\*. With the system, the taxpayers can access the system to record VAT input and output then print out a report for either a VAT refund request or a VAT credit claim to be attached with monthly VAT return.

\* The system and the requirement to print out VAT credit report was meant to be implemented in January 2019. However because of the system errors due to high volume of usages and many taxpayers could not access the system, the requirement to print out and attach the VAT report was postponed twice.



## Specific Tax on Certain Merchandises and Services (STCMS)

Certain goods and services are subject to STCMS, which is a form of excise tax that applies to importation or domestic production and supply of certain goods and services.

Examples of the levy of STCMS are:

Item	Rate
Domestic and international telephone services	3%
Domestic and international air ticket	10%
Entertainment services	10%
Cigarettes	20%
Beers	30%
Wine	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.

Payment of STCMS to the GDT is due on the 20th day of the following month.

## Tax for Public Lighting (TPL)

TPL is a tax levied on the sales 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 20<sup>th</sup> day of the following month.

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

1: Notable exemptions:

- Any payment to a registered self-assessment regime taxpayer for service, rental or a certain kind of software (shrink-wrap software, site license, down-loadable software, and software bundled with computer hardware) are exempted from WHT, provided it is supported by a proper tax invoice.

- Any payment of service of less than KHR50,000 (~US\$12.50) are exempted from the 15% WHT on service.

## Accommodation Tax (AT)

AT 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.

## Other Taxes

### Withholding Taxes (WHT)

#### Resident withholding tax

A resident taxpayer is required to withhold tax from the following payments of Cambodian source income to a resident entity:

Payment <sup>1</sup>	Rate
Payment for services to a physical person, including management, consulting, and other similar services	15%
Payment of royalties for intangible assets and interests in minerals, oil or natural gas	15%
Interest payments made to a physical person or an enterprise, except for interest paid to a domestic bank or savings institution	15%
Income from rental of movable or immovable properties	10%
Interest payments on a fixed deposit made by a domestic bank or savings institution to a resident taxpayer	6%
Interest payments on savings account made by a domestic bank or savings institution to a resident taxpayer	4%

### Non-Resident WHT

Any resident taxpayer carrying on business, including PE of non-resident taxpayer, who makes payment from Cambodian source income to a non-resident, shall withhold and pay as tax an amount equal to 14% of the amount payable. Payment from Cambodian source income may include the following:

Payment	Rate
Interest	14%
Income from movable or immovable property, if such property is situated in the Kingdom of Cambodia.	14%
Management or technical services	14%
Dividends	14%
Other various Cambodian source income(s) as provided in the Article 33 (new) of 2003 Law on Amendment on the Law on Investment (LALoT)	14%

Conversion of retained earnings to capital/equity will not be considered as dividend distribution and is not subject to WHT (supported by BoD resolution).

If there is transfer of shares in capital or equity interest (partly or wholly) of a company which has retained earnings related to the share transfer whether or not has been converted to share capital distribution of dividends, and will be subject to 14% WHT.

In case there is a reduction of capital or equity interest, the reduced amount shall be considered distribution of dividends, and will be subject to 14% WHT. However, the deemed dividend shall not exceed the amount of retained earnings.

Under existing Double Tax Agreements (DTA) in effect, the 14% WHT on certain payments such as interest, royalties, technical service fees & dividends to resident of the DTAs signatories is reduced to 10% WHT (provided Cambodian resident taxpayers complied with certain requirements of the GDT on a case by case basis). Please refer to section 5 below for DTAs signatory countries.

The small taxpayers are exempted from the obligation to act as withholding agents, except with regard to the WHT on rental fees for movable and immovable properties.

**Note:** The liability for WHT rests with the remitter. The GDT has no recourse to recover withholding tax from the recipient of the payment. The WHT is payable at either the date the payment is **made**, or the date the expense is **recorded** in the books, whichever is first.

Payment of WHT to the GDT is due on the 20th day of the following month.

### Advance Tax on Dividend Distribution (ATDD) <sup>2</sup>

ATDD is imposed on an enterprise, except for QIP, that distribute dividend from income before paying the annual Tol to its shareholders, local or foreign. The ATDD payable shall be equal to amount of dividend grossed up by the applicable Tol rate and multiply by that rate. The ATDD can be a credit against annual Tol for the tax year it takes place and any excess can be carried forward to the following year.

Dividend subsequently distributed from income already paid ATDD shall not be subject to ATDD again. ATDD shall not be imposed on income from insurance or reinsurance premiums on property or other risks, in Cambodia. ATDD shall also not be imposed on income transferred overseas by foreign company branches if it is transferred from income after paying Tol.

### Patent Tax

Patent tax is a yearly business registration tax which all enterprises carrying on business activities in Cambodia are required to pay by 31st March. A "patent tax certificate" will be issued by the GDT upon registration and/or after each successive change or update with the GDT of information of the enterprise that affects the patent tax certificate.

If the 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.

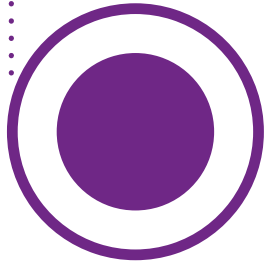
The amount of patent tax payable will be depending upon the form of the business, as well as the type of business activity and the level of turnover.

<sup>2</sup> The ATDD effectively replaces the previous Additional Income Tax on Dividend Distribution starting from implementation of the 2020 LoFM, signed on 20 December 2019.

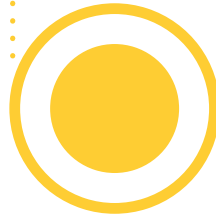


## Patent Tax

○ Large Taxpayers\*: either **KHR3,000,000 (~US\$750)**, if annual turnover is between KHR4,000 million and KHR10,000 million; or **KHR5,000,000 (~US\$1,250)** if annual turnover is over KHR10,000 million



○ Medium Taxpayers: **KHR1,200,000 (~US\$300)**



○ Small Taxpayers: **KHR400,000 (~US\$100)**



## 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%.

As a member of ASEAN, Cambodia has also implemented the ASEAN Trade in Goods Agreement (ATIGA) which entered into force on 17 May 2010. In accordance with ATIGA, the customs import duties was reduced to 0-5 percent on most goods.

Exemptions can also be obtained as part of the incentives offered by the CDC for the QIP undertaken in Cambodia.

## Registration Tax

Registration tax 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.

The following legal documents are subject to a registration tax (stamp duty) of KHR1,000,000:

- Company formation
- Company merger
- Dissolution of a company

## Property Transfer Taxes

There is a 4% tax on the transfer of ownership or possession rights for immovable property or transportation means (such as land, building, vehicles).

This 4% tax is imposed on the market value at the time of the transfer, which is to be determined by the Ministry of Economy and Finance (MEF) and payable by the party acquiring the ownership or possession rights and must be paid within three (3) months from the date of the transaction.

## Tax on Immovable Property (TIP)

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 constructions that are built on the land.

The Prakas on the collection of the TIP was subsequently issued on 19 July 2010 for implementation of the TIP. This

TIP is collected every year at the rate of 0.1% on the value of the immovable property that is more than the threshold of KHR100,000,000 (approximately US\$25,000). The value of the immovable property is assessed by the Assessment Committee, which is set up by the MEF.

The deadline for paying the TIP is 30 September.

## 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 and is due to be paid annually by 30 September.

However, unused land on which ‘Tax on immovable property’ has been paid is not subject to tax on unused land, effective from 2011 onwards.

## Tax Audit

Generally, there are essentially two kind of tax audits: desk audit and limited audits and comprehensive/final audits which are on field audits.

Desk audit is focused on clear and easy to find irregularities on the tax returns through reconciliation with available information and interviewing taxpayers. This can be conducted within 12 months after tax return lodgement.

Limited audit is limited in length and is focused on most taxes except Tol. This can be conducted on current tax year (N) and one prior tax year (N-1).

Comprehensive audit is conducted on all kinds of taxes and information necessary. This can be conducted within 3 tax years backwards (N-3). This can be extended to 5 tax years backwards (N-5) if there is evidence of tax evasion or there are losses or credit carried forward from longer than 3 tax years backwards. The tax year that is subject to comprehensive audit and any outstanding tax liability are settled by taxpayers would be considered as “closed” for any further tax audits.

In case of strong evidence of tax evasion comprehensive audits can be conducted further back than 5 tax years backwards with approval from the Minister of Economy and Finance.

\* Large Taxpayers are required to pay KHR3,000,000 (~USD750) for each additional patent tax certificate, if the enterprise has any branch, warehouse or business in different cities or provinces.

The Director General of the GDT can order any department to conduct a special audit or investigation of criminal offense on tax provisions on an enterprise if there is serious evidence showing intentional tax evasion of enterprises.

A "committee for enterprise allocation" established by the GDT manages a list of enterprises and allocates them for tax audits for each tax year.

Selection of enterprises for tax audits depends on the following criteria:

- Risk assessment;
- Result from information crosscheck;
- Information obtained from third party;
- Information about types of taxes or specific industries;
- Information of particular taxpayer; and
- Location of enterprise, etc.

If the tax auditors find any grounds (i.e. under-declared tax, non-compliance...etc.), they can issue a tax reassessment notice. Any reassessed tax will be subject to penalties as follows:

- 10% if the taxpayer is negligent
- 25% if the taxpayer is seriously negligent
- 40% if it is a unilateral tax reassessment

There is also 1.5% interest for each month for late payment.

The taxpayers will have thirty (30) working days to either make the tax payment or submit a protest to the GDT.

Taxpayers may request for settlement of tax debt in installments, provided they meet certain criteria and are able to provide required supporting documents.

A "Committee for Tax Arbitration (CTA)" was set up, under the MEF. It is stated that this committee will play the role of a third party arbitrator if the taxpayer is dissatisfied with the GDT's decision on the initial protest above.

However, as a matter of practical reality there is limited recourse for a taxpayer in any dispute with the GDT.

The detailed procedure of tax protest is described in Prakas 1470 by the MEF and Sub-Decree 03 by the Royal Government of Cambodia.

## 04 Tax incentives

The Council for the Development of Cambodia (CDC) is the principal government agency responsible for providing incentives to stimulate investment in Cambodia. Investors are required to submit an Investment Proposal to either the CDC or the Provincial-Municipal Investment Sub-committee (PMIS) to obtain Qualified Investment Project (QIP) status depending on the amount of capital investment and location of the investment project in question.

QIP status does not depend on the project being included in a list of eligible projects. Instead there is a "negative list". This means investment incentives would be available to all sectors not included in the negative list.

The stated investment incentives (generally) available to QIPs are:

- Exemption from tax on income (ToI) imposed by the LoT
- The ToI exemption consists of a Trigger Period (of up to three (3) years), three (3) years automatic exemption, plus a Priority Period that will be provided for in the LFM. In effect, the maximum exemption is up to nine (9) years.
- Accelerated depreciation on manufacturing assets (however, this is not available if the QIP elects to take the profit tax exemption referred to above)
- Exemption from import duty on production equipment, raw materials and inputs to manufacture; and
- The right to employ foreign labor.

The CDC requires all QIPs to apply for a Certificate of Compliance (CoC) annually, to enable QIPs to continue to receive the investment incentives granted under the investment license.

### Expansion of QIP project

Expansion of QIP project which includes:

- Expansion of an existing production line
- Expansion by modifying business objectives for different product(s) that are in the same production line
- Expansion by installing modern technology to increase production capacity or protect the environment
- Expansion of infrastructure serving basic telecommunication services,

The expansion shall receive exemption period for ToI similar to new QIPs comprising trigger period, three-year period and a priority period.

### Cut Make Trim services

QIPs which provides Cut Make Trim (CMT) services on a contract basis for the purpose of export, this CMT can receive the same incentive for ToI as if it was a QIP activity. These enterprises must comply with certain conditions such as notify every CMT transaction within 30 days after entering into a contract and attaching the contract; maintain proper accounting records and sufficient supporting documents as required.

There is also an incentive on similar terms provided to paddy plantation, paddy purchase collection and rice production and higher educational institutes. This incentive is administered by the GDT.

Garment and footwear manufacturing enterprises also receive tax incentives in the form of a suspension of the monthly PTol until 2022.

To be eligible however, those enterprises must ensure their regulatory compliance as taxpayers in the following areas:

- Maintain proper bookkeeping, declare and pay Tol, fulfill other tax obligations, and
- Submit an independent audit report to the tax administration annually (by three (3) months of the following tax year).

### Special Economic Zones (SEZs)

Generally, investors (QIP) located in SEZs are entitled to the same incentives and privileges as other QIPs. However, SEZs provide a one-stop service via the Special Economic Zone Administration. Special customs procedures (simpler and quicker formalities) are also applied in SEZs. In addition, other incentives may apply.

### Entertainment industry

Enterprises operating in the Khmer film production industry shall receive five years (from 2019 to 2023) of the following tax incentives:

- Suspension of WHT 15% on royalty for rights to screen Khmer movies, produced domestically.
- Suspension of Tol for enterprises producing Khmer film.

Enterprises wishing to obtain the tax incentives must be in compliance with tax registration, accounting and other taxes obligations.

### Education Sector

Tax relief available for education sector includes suspension of 1% Minimum Tax, Prepayment of Tol until end of 2023, exemption of WHT on certain services relating to students and interest and on certain management and technical services relating to students, and shall be treated as non-taxable supplies, regarding VAT, for education services and supply of goods or services to support education including food and accommodation for students.

### Agricultural Enterprises

Agriculture enterprises which produce, domestically supply or export rice, corn, bean, pepper, cassava, cashew nuts and rubber shall receive certain tax incentives until 2023.

The tax incentives include:

Value Added Tax (VAT): shall be allowed as state-charged for VAT on supplies of goods or services to agriculture enterprises above. The suppliers to the enterprises above shall not apply VAT on their supplies but are allowed to claim VAT input from purchases relating to those supplies.

Withholding Tax (WHT): shall be exempted from obligation to withhold 15% WHT on service fee paid to individuals not registered in the self-assessment regime.

Minimum Tax: shall be exempted from minimum tax, provided enterprises maintain proper accounting records in accordance with laws and provisions in effect.

Enterprises must fulfill the following conditions to obtain the tax incentives:

- \* Obtain a certificate of VAT as state-charge from the General Department of Taxation with a 1-year validity;
- \* Attach a list of suppliers claiming VAT as state-charge with the monthly VAT return; and
- \* Maintain accounting records in accordance with laws and provisions in effect

### Small and medium enterprises (SMEs) in priority sectors

The priority sector as defined by the government Sub-Decree includes:

- Agricultural or agro-industrial products;
- Producing and processing food;
- Manufacturers which produce domestic consumer goods, recycle waste, or produce goods for the tourism sector;
- Manufacturers which produce finished products or assembly parts to supply other manufacturers;
- Research and development of information technology (IT) including supply of services of all kinds through IT systems which are innovative; and
- Enterprises located in the SME cluster and enterprises which develop this area.

These priority sectors exclude sectors that harm social security, health and environment.

SMEs in the priority sector are eligible for certain tax incentives as follows:

- Exemption of Tol for three (3) years from date of tax registration for newly registered enterprises or date since original tax registration information update for existing enterprises;
- Exemption of Tol for five (5) years from date of tax registration for newly registered enterprises or date since original tax registration information update for existing enterprises, provided one of the conditions below is met:
  - Using 60% or above domestic raw materials; or
  - Increased number of employees by at least 20%; or
  - Is in the SME cluster.
- Exemption of PTol and Minimum Tax during the Tol period,
- Additional expenses allowable for deduction as follows:
  - 200% deductible expense for expenses relating to using accounting through IT system;
  - 200% deductible expense for expenses relating to training on accounting or technical skills for employees;
  - 150% deductible expense for expenses relating to investment on innovative machinery or technical equipment.

To maintain the tax incentives, the SMEs must keep compliant with accounting and tax declaration obligations as well as pay other relevant taxes in accordance with law and provisions in effect. Taxpayers (SMEs) can apply for the tax incentives with the GDT by attaching certain required documents.

\* Listed companies that publicly issue shares and/or debt securities approved by the Securities Exchange Commission of Cambodia (SECC) will also be granted incentives as indicated on page 7.

# 05 International tax

## Double Tax Relief

A foreign tax credit is available to a resident in respect of foreign taxes paid, subject to certain conditions.

## Double Tax Agreements (DTA)

Cambodia has DTA in effect with six partner countries including Singapore, China, Brunei, Thailand, Vietnam and the Hong Kong Special Autonomous Region.

Cambodia has also signed DTA agreements with Indonesia, Malaysia and South Korea which as at the date of this Publication are still awaiting ratifications.

The GDT issued rules and procedures for implementation of the DTAs. Cambodian resident taxpayers shall submit requests to relevant departments of the GDT to apply preferential tax rates as per the DTAs (i.e. 10% WHT) for suppliers/vendors from partner countries and they can apply for certificate of residency to gain benefits of the DTAs themselves in the partner countries.

## Bilateral Investment Agreements

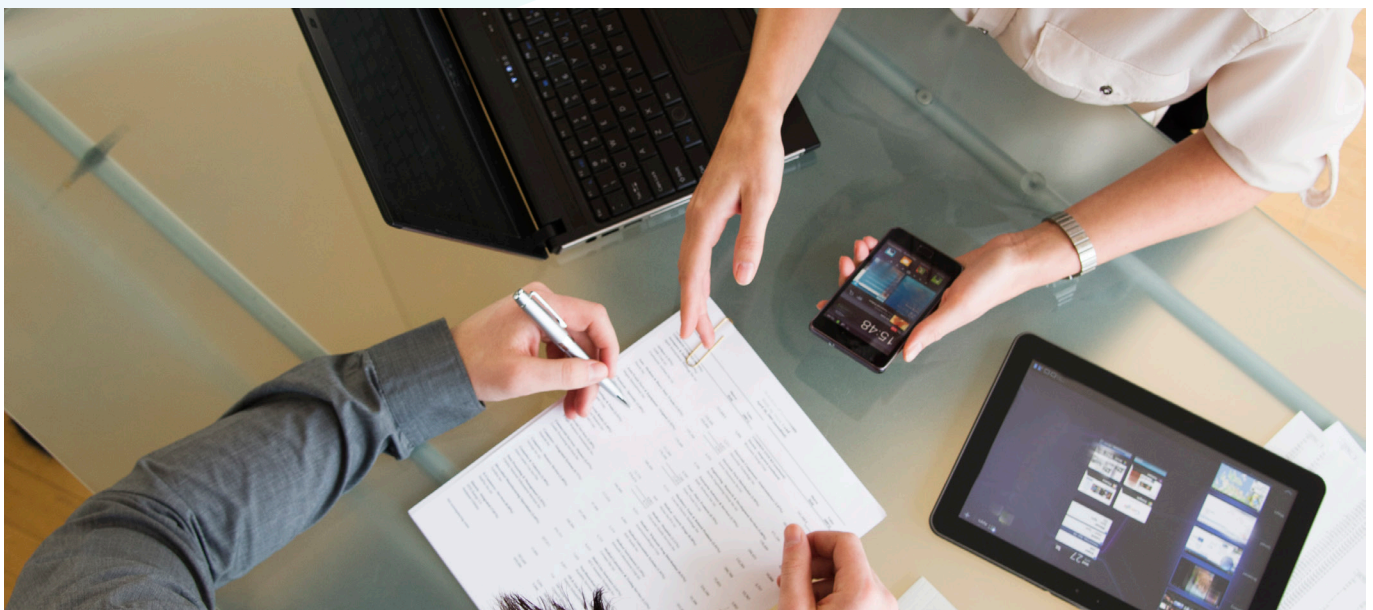
Cambodia has signed bilateral investment treaties (BITs) with Austria, Belarus, Bangladesh, China, Croatia, Cuba, Czech Republic, Democratic People's Republic of Korea, France, Germany, Hungary, India, Indonesia (later terminated), Japan, Kuwait, Laos, Malaysia, the Netherlands, Pakistan, the Philippines, the Republic of Korea, Russia, Singapore, Switzerland, Thailand, Vietnam, and the Organization of the Petroleum Exporting Countries.

Future agreements are planned with Algeria, the Belgium-Luxembourg Economic Union, Bulgaria, Egypt, Hungary, Israel, Iran, Libya, Macedonia, Malta, Qatar, Turkey, the United Kingdom, and Ukraine.

Cambodia has also signed several regional Free Trade Agreements including:

- ASEAN-Australia New Zealand;
- ASEAN-Hong Kong, China;
- ASEAN-Republic of Korea;
- ASEAN-Japan;
- ASEAN-India;
- ASEAN-China and ASEAN Investment Comprehensive Agreement;
- Cambodia is also negotiating China Investment Promotion and Protection Agreement; Regional Comprehensive Economic Partnership Agreement (RCEP); and ASEAN-Republic of Korea Investment Agreement under the Framework Agreement.

Cambodia has signed a Trade and Investment Framework Agreement (TIFA) with the U.S. to promote greater trade and investment in both countries and provide a forum to address bilateral trade and investment issues.





# 06 Anti-avoidance rules

## Introduction

There is no “general anti-avoidance” provision in the Cambodian tax law.

### Transfer Pricing

The related party provision of the 1997 LoT (Article 18) gives wide power to the GDT to re-determine related party transactions. The GDT may re-determine related party transactions to impose pricing that the GDT considers “arm length” parties would have undertaken in the transactions.

A related party relationship is one where there is a 20% or more shareholders relationship.

- On 10 October 2017, the MEF issued Prakas no. 986 titled “Rules and Procedures for Division of Income and Expense between Related Parties.” This Prakas may be considered as the initial Transfer Pricing (TP) rule for Cambodia to deal with RPT.
- Prakas no. 986 is stated to apply to every business transaction between two or more related parties, where, between them, there is at least one party which is a resident taxpayer. For this purpose, the related party relationship is defined in the Prakas and basically refers to a 20% or more Group relationship.
- Similar to the TP requirements in most jurisdictions the “arms-length” principle of comparing transactions between related parties and those between independent parties has been established as the guiding concept under Prakas no. 986 and reference and explanation is provided on five (5) methods to assist with this principle:
  - Comparable Uncontrolled Price (CUP),
  - Resale Price Method (RPM),
  - Cost Plus Method (CPM),
  - Transactional Net Margin Method (TNMM), and
  - Profit Split Method.

Prakas no. 986 is effective from the date of signing, which is 10 October 2017, and the Prakas indicates that penalties and strict action will be taken where taxpayers do not comply with the TP documentation requirements.

### Permanent Establishment (PE)

A PE is defined in Cambodia as “a fixed place of business in the Kingdom of Cambodia, the branch of a foreign Company or an agent resident in the Kingdom of Cambodia, through which a non-resident person carries on their business. The term PE also includes any other association or connection through which a non-resident person engages in economic activity in the Kingdom of Cambodia”.

The term economic activity is explained as the “regular, continuous or time to time activity of a person, whether or not for profit, in the supply of, or the intent to supply, of goods and services to other persons for the purpose of obtaining any benefit”.

With the DTAs above already ratified, the PE provisions of the DTAs should be considered in determining PE status (at least as far as the companies of the partner countries are concerned), and should be no longer subject to domestic law and interpretation of the GDT.

### Thin Capitalization

There is no general thin capitalization legislation but there are limitations on the deductibility of interest (see 1. Taxation of Company). A specific Debt: Equity ratio requirement exists for the petroleum and mineral sectors.

### Controlled Foreign Company (CFC) Provisions

There is no CFC regime in Cambodia.

# 07 Foreign exchange control

All matters relating to the management of foreign exchange are carried out by the NBC. Although the KHR (Khmer Riel) is the official currency of Cambodia, the US dollar is in common circulation and the majority of commerce is denominated in US dollars.

There are currently no restrictions on the repatriation of profits or capital from Cambodia, and the law guarantees the rights of foreign investors to remit foreign currencies abroad for:

- The payment of imports and repayment of principal and interest on foreign loans
- The payment of royalties and management fees
- The remittance of profits; and

- The repatriation of invested capital on dissolution of an investment project.

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.

It should be noted that the law does provide for the NBC to implement exchange controls in the event of a foreign exchange crisis.

There are no restrictions on the establishment of foreign currency bank accounts in Cambodia for residents.

## Audit Services

- Financial Statement Audit
- Regulatory Audit
- Accounting Advisory Services
- Audit Related Services
- International Financial Reporting Standards
- Audit Data & Analytics



**Lim Chew Teng**  
Managing Partner  
Audit services



**Nge Huy**  
Partner  
Audit services



**Taing Youk Fong**  
Partner  
Audit services

**Integrity, quality and independence are the building blocks of KPMG's approach. Our audit process does more than just assess financial information. It enables our professionals to consider the unique elements of the client's business - its culture, the industry in which it operates, competitiveness, pressures, and inherent risks.**

KPMG's member firms have developed a globally consistent audit methodology that is designed to focus on the key areas of risk, based on a company's operational characteristics and performance profile. Our partners and professionals are trained to look closely at all aspects of financial reporting so they are better able to isolate risk.

**Financial Statement Audits** play a critical role in creating and maintaining investor confidence and can unlock valuable insights into the business.

**Good audits add value beyond the formal financial statements.**

Independent financial statement audits enhance the reliability of the information provided by companies to investors, creditors and other stakeholders in accordance with statutory requirements. In the market place, credible financial statement audits reinforce investor confidence. Within organisations, they add to board and management understanding of the business and the risks it faces.

**Regulatory Audits** assist with a range of compliance obligations by conducting independent audits and reviews of financial information and data.

**Audit Related Services** offer completion audits, agreed upon procedures, internal control reporting, and compliance audit assistance.

In addition to the traditional financial statement audit, most organisations experience needs for independent, objective assurance on financial information, transactions and processes. Independent assurance and verification adds credibility to an organisation's disclosures and reporting, particularly when it is not a statutory requirement.

**International Financial Reporting Standards** are generally accepted by users in a large number of countries around the world.

Growing numbers of companies and organisations in Cambodia are adopting International Financial Reporting Standards (IFRS). The benefits of IFRS include enhanced comparability and improved transparency of financial reporting. IFRS financial statements are generally accepted

by users in a large number of countries around the world. These are an absolute requirement to gain access to international capital market. KPMG has been assisting clients both in Cambodia and internationally implement and interpret these standards.

### How we can help

KPMG is working with organisations around the world to help them deal with complex questions arising from the adoption of IFRS, such as:

- How will IFRS affect reported business performance and how will the consequences of this change be communicated effectively, both internally and to the external market?
- What are the potential benefits of adopting IFRS, and how can they be realised?
- What experience and resources will be required for a successful IFRS conversion?
- How should organisations manage the conversion to IFRS? KPMG is helping organisations adopt IFRS, providing practical support to smooth the transition.

**Audit Data and Analytics** unlock the data in your business and delivers insight to help enhance audit quality.

### Adding value to audit and confidence in assurance

KPMG's CLARA – powered by D&A – is raising the bar on audit quality by enabling us to test complete data populations and understand the business reasons behind outliers and anomalies. Automated audit capabilities let our people focus on the higher risk areas of the audit. And the enhanced business insights our audit teams bring to the audit help you see your business from a new perspective.

## Tax Services

- Corporate Income Tax and International Corporate Tax
- Indirect Taxes
- Global Tax Outsourcing
- Transfer Pricing and Supply Chain Management
- Merger & Acquisitions Tax
- Trade & Customs
- Market Entry Services



**Tan Mona**  
Partner  
Tax & Corporate services



**Michael Gordon**  
Senior Advisor  
Tax & Corporate services

**KPMG Cambodia's Tax services are designed to reflect the unique needs and objectives of each client, whether we are dealing with the tax aspects of a cross-border acquisition or developing and helping to implement a global transfer pricing strategy. In practical terms, this means that we work with our clients to assist them in achieving effective tax compliance and managing tax risks, while helping to control costs.**

Our **Corporate Income Tax** and **International Corporate Tax** team advises organizations on domestic and international tax laws affecting local and cross border transactions and other regulatory matters, such as foreign investment rules and industry specific regulatory requirements as well as domestic tax issues such as incentives, deductibility and corporate tax management. Our industry- focused, experienced professionals provide tax advisory services that are tailored to the needs of the industry.

**Indirect Tax**, such as VAT can be complex and costly. **Indirect Tax Team** focus on effective indirect tax planning, compliance and related cash flow management, helping companies improve profitability and build stakeholder value.

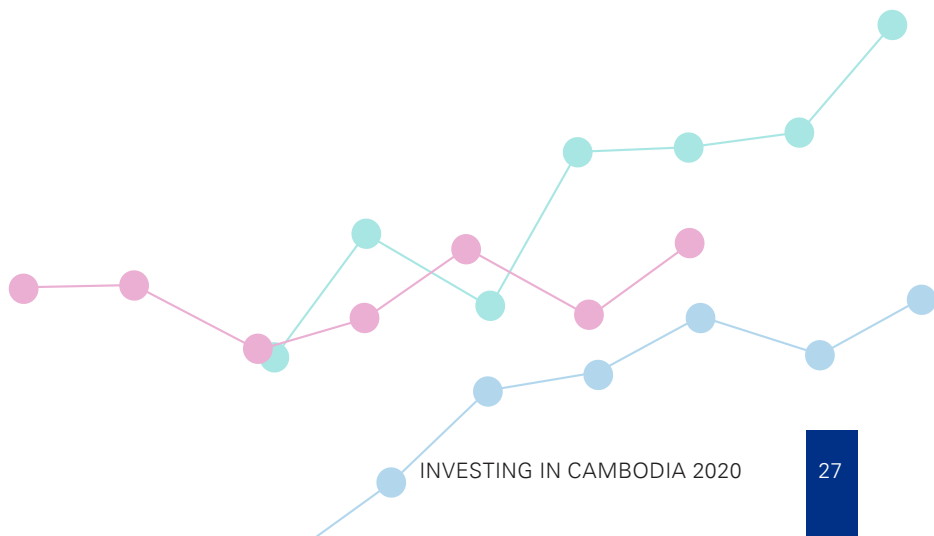
In addition to tax advisory services, KPMG helps businesses manage their **tax compliance obligations**. These obligations can represent a substantial outflow of funds from a business and a drain on management time due to increased reporting requirements, greater scrutiny by tax authorities and harsher penalties for non-compliance. Our Global Tax Outsourcing group works with our KPMG offices internationally to assist multinational groups to co-ordinate and comply with their tax compliance obligations on a global basis.

**Transfer Pricing Services (TPS)** helps organizations manage their transfer pricing risks, fulfil regulatory compliance and design effective transfer pricing policies. TPS assists with risk assessment reviews, documentation and compliance, audit defense, advance pricing arrangements, competent authority procedures, transfer pricing planning and due diligence, and supply chain analysis. Our industry-focused full time transfer pricing professionals and multi-disciplinary approach helps provide corporations with effective transfer pricing strategies across the region and the world.

**Merger & Acquisitions Tax (M&A Tax)** professionals are involved in providing tax advisory services in connection with corporate restructuring, mergers and acquisitions, advising on tax efficient investment structures and conducting tax due diligence.

Our **Trade & Customs** professionals advise clients on duties, planning and compliance related obligations when importing and exporting goods.

Our **Market Entry Services** provide market related strategic advisory support, in particular market entry, research and advice to support your strategy development. Our Market Entry team provides Advisory services to companies entering the Cambodia market.



## Accounting Services

- Management accounts
- Accounting system recommendation & setup
- Stock listing preparation
- Audit assistance
- Financial Shared Service Center & CFO Advisory package
- Divisional & Project reporting
- Payroll service



**Dary So**  
Partner  
Tax & Corporate services

**KPMG Cambodia's Accounting Services are modelled to suit a wide range of industries and the specialized accounting needs of each client, from a review of historical accounting matters and helping clients to correct lingering accounting issues, preparing a company for stock listing or audit, to running a full financial shared service center with our CFO advisory package.**

Cambodia is experiencing an ever increasing demand for proper keeping of management accounting records and payroll processing, driven by factors including regulatory requirements, audit requirements, and increases in foreign investment.

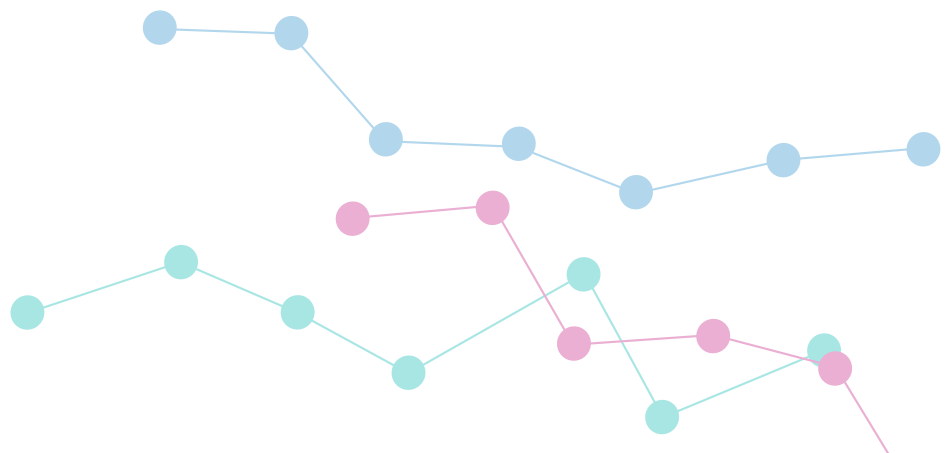
KPMG is strongly positioned to meet this demand with our Accounting team's wealth of experience providing high quality **Accounting Services** to our clients. Our Accounting team advises clients on the setup and implementation of appropriate accounting systems, follows through with the ongoing maintenance of the accounting system and proper accounting records and provides training to our client's accounting staff. Our team assists clients from basic reporting such as balance sheet & profit & loss statements up to divisional or project analysis, budget variance reports and specialized investor/donor reporting.

Our **Financial Shared Service Center** and **CFO Advisory** package allows for the client to outsource finance functions and Chief Financial Officer activities to our team of trained and experienced staff. Through our Financial Shared Service package we assist our clients all the way through the process, from the basic accounting reporting and management of the accounting team through to reporting to the Board of Directors, budgeting & projections and specialized reporting including financial key performance indicators.

Our **Payroll Services** team has a history of providing expert services to local and international entities operating in Cambodia with both local and expatriate employees. These services include but are not limited to, payroll calculation, payroll reporting, calculation of historical and current seniority liabilities, pay slip preparation and the settlement of other payroll related liabilities through trust accounts.

**Accounting Advisory Services** bring a depth of knowledge that combines financial reporting knowledge.

All organisations periodically face difficult financial reporting and accounting issues and the current economic climate is increasing the challenges faced by business. In trying to sort through these issues on their own, organisations typically waste time and resources. Good professional advisers can strip away much of the uncertainty and confusion which can surround the application of accounting standards and reporting practices, and enable relevant commercial outcomes.



## Advisory Services

- Accounting Advisory Services
- Internal Audit
- IT Advisory
- Management Consulting
- Deal Advisory
- Risk Consulting
- Forensics



**James Roberts**  
Partner  
Advisory services

**KPMG's Advisory professionals assist clients through a range of services relating to Risk Consulting, Transactions & Restructuring, and Management Consulting. Together, these services can help address a client's strategic needs in terms of growth (creating value), governance (managing value), and performance (enhancing value).**

**KPMG's Risk Consulting group** is built on addressing clients' urgent strategic and operational challenges, as appropriate in today's environment. The practice focuses on key risk areas relating to accounting and reporting, finance and treasury, regulatory compliance and controls.

### **Internal Audit, Risk Consulting Services (IARCS).**

We help organizations improve their corporate governance practices, risk management and internal control systems by focusing on strategic and operational risk issues spanning different functions and operating units. We provide governance, risk and consulting services to support compliance with listing rules and other regulatory requirements, helping develop integrated frameworks that unify governance, risk, compliance and assurance functions.

## Management Consulting

- Business Performance Services (BPS)
- IT Advisory

**Business Performance Services (BPS).** We help clients improve the operation of their business through a range of services such as margin enhancement, finance function and process improvement, post-merger integration, cost optimization and performance measurement. BPS can help organizations improve their operating margins by focusing on both cost management and process efficiency and also assist clients to make informed decisions about outsourcing, shared services and joint venture possibilities. As better operating practices are incorporated across the enterprise, is provided greater confidence to external investors, business partners and the markets.

**Forensic.** KPMG Forensics global network of experienced professionals use accounting, investigation, intelligence, technology, economics and deep industry skills alongside consistent global methodologies to help reduce reputational risk and commercial loss, and to improve the value obtained from existing contracts.

**Accounting Advisory Service.** We advise our clients on a range of important matters that have significant accounting ramifications, including converting to International Financial Reporting Standards (IFRS), initial public offerings, merger and acquisition activity, cross-border transactions, improving the speed and quality of financial reporting (Quality Close) and improvements in the financial reporting process chain.

**IT Advisory.** Our services allow our clients to harness the full potential of information technology in line with their business strategy and vision whilst also supporting or driving compliance with laws and regulations. Offering services through the life cycle, our IT Advisory professionals can also assist our clients through the implementation process to achieve measurable results.

## Transactions and Restructuring

- **Transaction Services**
- **Corporate Finance**
- **Restructuring**

**KPMG's Transactions & Restructuring group** comprises three divisions, providing transaction services, corporate finance, and restructuring services. Whether our client aim to buy a business, raise capital, investigate fraud, improve performance or wind down operations, our professionals can devise and help implement practical and commercial strategies to achieve their goals.

**Transaction Services.** We provide assistance to clients on mergers and acquisitions, particularly with respect to financial and commercial due diligence, analysis on financial projections, cash flows, management information, systems and controls, and staff compensation. The team also provides vendor due diligence and assistance for clients divesting their businesses.

**Corporate Finance.** We help clients with M&A origination and deal management, target search, capital raising, strategic and financial analysis, pricing analysis, valuation, negotiation support and financial structuring. We can advise on project management of a merger or acquisition, from inception through to completion and ultimately, in some cases, an IPO or trade sale exit. Corporate Finance also has teams dedicated to the financing of infrastructure and other capital intensive projects.

**Restructuring Services.** We work alongside lenders, stakeholders and all levels of management to develop restructuring strategies that improve a company's balance sheet, profit & loss and cash flow. We can provide background support to the executive team and assist them in renegotiating their finances, providing a robust challenge to the business plan that underpins their refinancing proposals. Operational Restructuring seeks to provide the skills needed for turnaround planning and implementation to restore profitability and build a platform for growth.

**KPMG's Management Consulting group** assists our clients in improving and transforming business performance through strategic and operational re-engineering and better leverage of technology investments. We help develop strategies relating to Finance Transformation, Supply Chain Management, IT Strategy Implementation, Cost Optimization, Business Integration, Business Intelligence as well as ERP Advisory services.

# Glossary

<b>ADCE</b>	Annual Declaration of Commercial Enterprise
<b>ATDD</b>	Advance Tax on Dividend Distribution
<b>AT</b>	Accommodation Tax
<b>ATiGA</b>	ASEAN Trade in Goods Agreement
<b>BPS</b>	Business Performance Services
<b>CDC</b>	Council for the Development of Cambodia
<b>CFC</b>	Controlled Foreign Company
<b>CFRSNPO</b>	Cambodian Financial Reporting Standards for Non-Profit Organizations
<b>CIFRS</b>	Cambodian International Financial Reporting Standards
<b>CIFRS for SMEs</b>	Cambodian International Financial Reporting Standards for Small and Medium-sized Entities
<b>CIT</b>	Corporate Income Tax
<b>CoC</b>	Certificate of Compliance
<b>CSX</b>	Cambodia Securities Exchange
<b>CTA</b>	Committee for Tax Arbitration
<b>DTA</b>	Double Tax Agreements
<b>EBA</b>	Everything But Arms
<b>EU</b>	European Union
<b>GDT</b>	General Department of Taxation
<b>GSP</b>	Generalized System of Preferences
<b>GTI</b>	Grand Twins International (Cambodia) Plc
<b>HKL</b>	Hattha Kaksekar Limited
<b>IARCS</b>	Internal Audit, Risk Consulting Services
<b>IASB</b>	International Accounting Standard Board
<b>IFRS</b>	International Financial Reporting Standards
<b>KHR</b>	Khmer Riel
<b>KICPAA</b>	Kampuchea Institute of Certified Public Accountants and Auditors
<b>KRX</b>	Korea Exchange
<b>LALol</b>	2003 Law on Amendment on the Law on Investment
<b>LoFM</b>	Law on Financial Management
<b>Lol</b>	1994 Law on Investment
<b>LoT</b>	Law on Taxation

<b>M&amp;A</b>	<b>Mergers &amp; Acquisitions</b>
<b>MEF</b>	<b>Ministry of Economy and Finance</b>
<b>MFN</b>	<b>Most Favored Nation</b>
<b>MLVT</b>	<b>Ministry of Labor and Vocational Training</b>
<b>MoC</b>	<b>Ministry of Commerce</b>
<b>NAC</b>	<b>National Accounting Council</b>
<b>NBC</b>	<b>National Bank of Cambodia</b>
<b>NSSF</b>	<b>National Social Security Fund</b>
<b>PAS</b>	<b>Sihanoukville Autonomous Port</b>
<b>PE</b>	<b>Permanent Establishment</b>
<b>PMIS</b>	<b>Provincial-Municipal Investment Sub-committee</b>
<b>PPAP</b>	<b>Phnom Penh Autonomous Port</b>
<b>PPSP</b>	<b>Phnom Penh SEZ Plc</b>
<b>PWSA</b>	<b>Phnom Penh Water Supply Authority</b>
<b>PSC</b>	<b>Production Sharing Contract</b>
<b>PTol</b>	<b>Prepayment of Tax on Income</b>
<b>QIP</b>	<b>Qualified Investment Projects</b>
<b>R&amp;D</b>	<b>Research &amp; Development</b>
<b>RO</b>	<b>Representative Office</b>
<b>SAR</b>	<b>Self-Assessment Regime</b>
<b>SECC</b>	<b>Securities and Exchange Commission of Cambodia</b>
<b>SOE</b>	<b>State-Owned Enterprise</b>
<b>STCMS</b>	<b>Specific Tax on Certain Merchandises and Services</b>
<b>TIN</b>	<b>Tax Identification Number</b>
<b>TIP</b>	<b>Tax on Immovable Property</b>
<b>ToI</b>	<b>Tax on Income</b>
<b>ToS</b>	<b>Tax on Salary</b>
<b>TP</b>	<b>Transfer Pricing</b>
<b>TPL</b>	<b>Tax for Public Lighting</b>
<b>TPS</b>	<b>Transfer Pricing Services</b>
<b>US</b>	<b>United States</b>
<b>VAT</b>	<b>Value Added Tax</b>
<b>WHT</b>	<b>Withholding Taxes</b>







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