



# Investing in Cambodia



06/2016

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# Content

|   |    |
|---|----|
| <b>Cambodia Market Overview</b>   | 02 |
| • Market Overview   | 03 |
| • Cambodia Securities Exchange (CSX)  | 05 |
| <b>KPMG Introduction</b>  | 08 |
| <b>Setting Up Business</b>  | 16 |
| <b>Accounting/Finance for companies and<br/>Cambodian branches of foreign companies</b> | 18 |
| <b>Other Compliance Requirements</b>  | 20 |
| <b>Cambodian Tax Guide</b>  | 22 |
| • Overview  | 23 |
| • Taxation of Companies   | 24 |
| • Taxation of Individuals   | 27 |
| • Indirect and Other Taxes  | 28 |
| • Tax Incentives  | 32 |
| • International Tax   | 33 |
| • Anti-Avoidance Rules  | 33 |
| • Foreign Exchange Controls   | 33 |
| <b>Glossary</b>   | 34 |
| <b>Our Global Network</b>   | 36 |



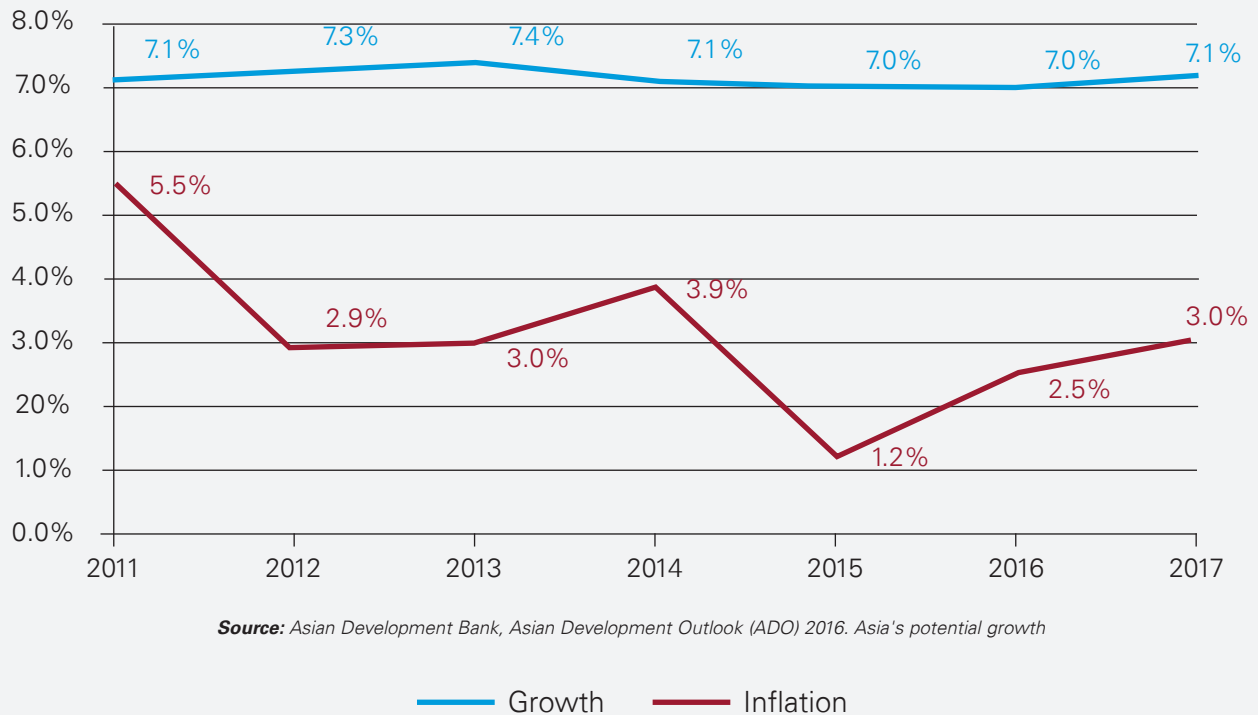
# Cambodia Market Overview



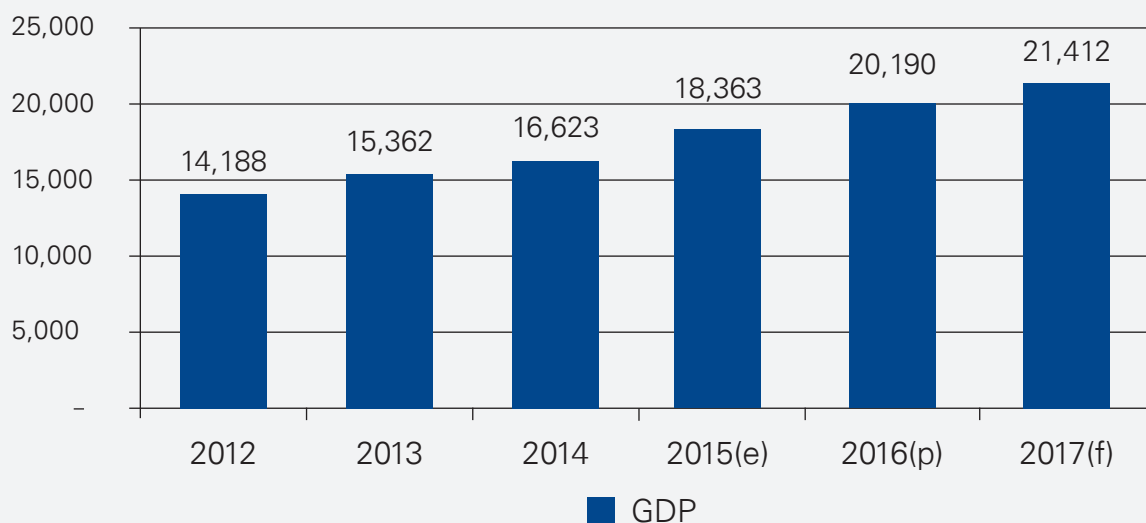
# Market Overview

Cambodia is a member of ASEAN and WTO, and implements MFN and GSP preference with other countries, especially the United States (US) and the European Union (EU). Cambodia's GDP grew by 7% in 2015. GDP growth is forecast to be at least 7% for the year 2016 and 2017 respectively. The inflation rate was 3.9% in 2014 and plunged to 1.2% in 2015. The inflation rate is forecast to increase to 2.5% in year 2016.

**Cambodia GDP Growth and Inflation (%)**



**Cambodia GDP from 2012 to 2017(f) (USD Million)**



**Source:** World Bank. 2016. "Growing Challenges" East Asia and Pacific Economic Update (April)



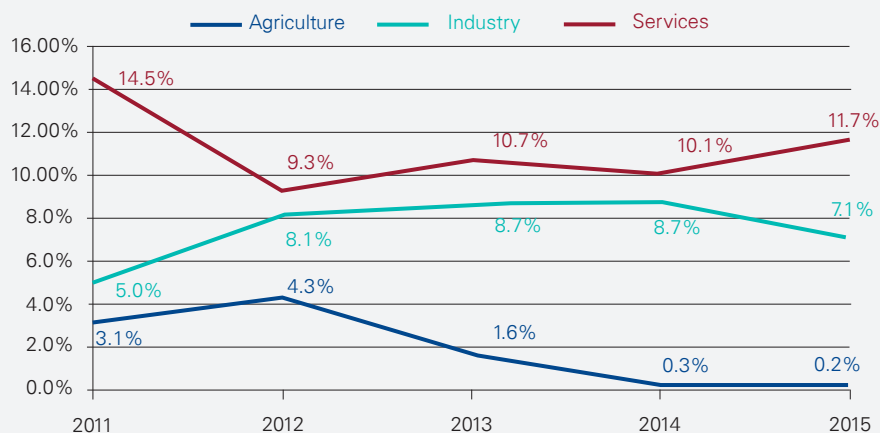
## Economy

Industry is the primary source of growth, driven mainly by export of garments and footwear to the US and EU. Industry, particularly garment and footwear manufacturing and construction, contributed strongly to 7.0% economic growth in 2015, as did services. Agriculture was flat mainly because of drought. Cambodia's large supply of low-cost labor and investment support regulations has attracted substantial foreign direct investment (FDI) into the production of garments and footwear.

## Foreign Direct Investment (FDI)

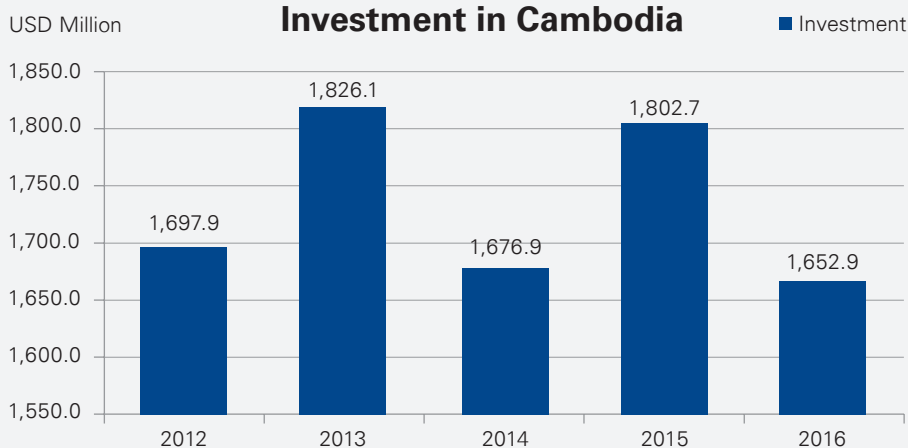
The Cambodian Law on Investment (LoI) encourages both local and foreign investors without discrimination. The LoI provides incentives (significantly on the import duty and tax on profit, up to 9 years maximum). Export industry is given priority from the Cambodian government via the LoI.

## Cambodia GDP Growth by Sector (%)



Source: Asian Development Bank, Asian Development Outlook (ADO) 2016. Asia's potential growth

## Investment in Cambodia



Source: Cambodia Economic Update: Improving Macroeconomic and Financial Resilience, World Bank Group April 2016

## Banking System

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

In mid-2016, the key players in Cambodia's financial sector are 36 Commercial banks, 8 Representative offices, 13 Specialized banks, 54 Micro-finance institutions\* and 23 insurance companies.

In March 2016, the National Bank of Cambodia (NBC) raised the minimum capital requirement as follows:

- US\$50 million (for commercial bank incorporated as foreign branch, whose parent bank is rated "Investment Grade")
- US\$70 million (for commercial bank incorporated as foreign branch, whose parent bank is NOT rated "Investment Grade", foreign subsidiary, or local company.)
- US\$15 million (for specialized bank incorporated locally)

- US\$30 million (for micro-finance taking deposit institution)
- US\$1.5 million (for micro-finance institution)

## Currency

The local currency, Riel (KHR), was introduced in 1980. However, Cambodia is a heavily dollarized country with 80% of deposits and credits in the banking system in U.S. dollars. Cambodia is classified as partially dollarized, given that in such economies, the U.S. dollar circulates in conjunction with an official national currency as opposed to fully dollarized economies where the dollar is the only legal tender.

## Land Ownership

The Law on Investment of Cambodia restricts foreigners from owning land in Cambodia since land ownership is reserved to natural and legal Cambodians. However, effective from December 2011, foreigners are allowed to have

a long-term lease for up to 50 years and renewable long-term lease or a renewable short-term lease.

## Business Sectors

There are a range of business sectors in Cambodia and continued interest from investors in considering establishment of operations in Cambodia. There has been diversification of business interest - whereas previously the garment sector was the core business sector in Cambodia.

## 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
- Among Asia's lowest labour cost and a dynamic workforce
- Favorable investment environment.

# Cambodia Securities Exchange (CSX)

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

## 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 30 June 2016, there are four Companies listed on the CSX. Two State owned enterprise (SOEs) - Phnom Penh Water Supply and Phnom Penh Autonomous Port and two private companies - Grant Twins International (Cambodia) and Phnom Penh SEZ Plc.



### Key Operating Rules

|                                    |  |
|------------------------------------|--|
| <b>Market hours, trading times</b> | Market is open from 8:00 am to 11:30 am, Mon-Fri, with trades executed six times daily (according to a Press release - the 26th Plenary Meeting of the SECC dated 15 January 2013).  |
| <b>Minimum trading unit</b>        | Price variance is set as follows:<br>1) KHR50 for a share price KHR50K per share;<br>2) KHR250 for a share price equal or above KHR50K but below KHR500K per share;<br>3) KHR500 for a share price equal or above KHR500K.<br>Minimum trading unit is one share. |
| <b>Daily price limit</b>           | +/- 5% of the base price, or KHR10 where the base price is below KHR1,000<br>(According to a Press release - the 26th Plenary Meeting of the SECC dated 15 January 2013)   |

### Key Settlement Rules

|                                  |   |
|----------------------------------|---|
| <b>Settlement time</b>           | Settlement is performed two days after the trade, T+2, at 8:30 am   |
| <b>Account opening</b>           | Securities firms open both an account with a cash settlement agent and with the securities depository   |
| <b>Good faith deposit</b>        | 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 |
| <b>Clearing, settlement fees</b> | Clearing fees are 0.05% of the value of the settled trade   |

## Stock Trading on the Exchange

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

ACLEDA Bank Plc, Canadia Bank Plc, and the Bank for Investment and Development of Cambodia have been licensed as cash settlement agents by the SECC.

ACLEDA Bank Plc, and Tricor Securities Services Plc have been licensed as securities registrar, transfer agent, and paying agent by the SECC.

## Tax Incentives for Listing on CSX

In accordance with Sub-decree No. 01 SD dated 8 January 2015, the listing entity will enjoy the following benefits:

- 50% reduction on Tax on Profit ("ToP") payable for a period of three years should the entity issuing shares

and/or debt securities within 3 years from the date of this sub-decree i.e., before 2017;

- Exemption of ToP payable for enterprise that made initial public office (IPO) in the 5 years period from date of the Sub-Decree i.e. 8 January 2015 for:

1-Exempt ToP payable found by independent audit firm after the General Department of Taxation (GDT) had completed a comprehensive audit for the period of N-1, N-2, N-3

2-Exempt ToP payable found by GDT's re-auditing after the comprehensive audit for the period up to 7 years counting backward from year N-3 (N is the year of IPO)

- 50% reduction of withholding tax on interest and/or dividend deriving from holding and/or buying securities for 3 years from the date of this sub-decree; and

- A temporary suspension of the monthly prepayment of profit tax.

However, if the GDT finds any irregularities with the company, particularly tax compliance, they can terminate the above incentives.

## Currency of the Exchange

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

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

## Securities Firms

The SECC has granted licences to 12 securities firms to operate on the CSX - six underwriters, three brokers, two investment advisers and one dealer.

## Requirements for listing on the CSX

| Key Requirements for listing on the CSX |  |   |
|---|--|---|
|   | Main Board   | Growth Board  |
| <b>Shareholders' equity</b>             | KHR30 billion (US\$7.5 million)  | KHR2 billion (US\$500,000)  |
| <b>Net profit</b>                       | <ul style="list-style-type: none"> <li>• KHR2 billion (US\$500,000) for the latest year; and</li> <li>• Cumulative KHR3 billion (US\$750,000) for the latest 2 years</li> </ul>  | <ul style="list-style-type: none"> <li>• Positive net income for latest year; or</li> <li>• Positive operating cash flow &amp; gross profit margin 10%</li> </ul> |
| <b>Minority shareholder</b>             | <ul style="list-style-type: none"> <li>• 200 shareholders; and</li> <li>• 7% of the total voting shares</li> </ul>   | <ul style="list-style-type: none"> <li>• 100 shareholders; and</li> <li>• 10% of the total voting shares</li> </ul>   |
| <b>Listing Eligibility Review Fee</b>   | KHR4,000,000 (US\$1,000)   | KHR2,000,000 (US\$500)  |
| <b>Listing Fee</b>                      | <ul style="list-style-type: none"> <li>• 0.010% - 0.030% of total market cap</li> <li>• Minimum KHR10,000,000 (US\$2,500)</li> </ul>   | <ul style="list-style-type: none"> <li>• KHR4,000,000 or 0.025% of the total market cap, whichever is larger</li> </ul>   |
| <b>Annual Listing Fee</b>               | <ul style="list-style-type: none"> <li>• 0.005% - 0.020% of total market cap</li> <li>• Minimum KHR10,000,000 (US\$750)</li> </ul>   | <ul style="list-style-type: none"> <li>• KHR4,000,000 or 0.025% of the total market cap, whichever is larger</li> </ul>   |
| <b>Corporate governance</b>             | Board members: 5 to 15<br>Independent director: > 1/5 of total number of directors<br>If foreign independent director: > 6 months of working experiences in Cambodia<br>Committee of BOD <ul style="list-style-type: none"> <li>a. Audit Committee</li> <li>b. Risk Management Committee: Assets &gt; KHR200 billion (US\$50 million)</li> <li>c. Nomination Committee: Board can consider to establish it and other Committees as necessary and as required by SECC.</li> </ul> |   |

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.









# KPMG Introduction



# Turning Knowledge Into Value

## Who we are

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

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

It's 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 156 countries worldwide.

The purpose of KPMG's network of firms is to turn knowledge into value for the benefit of our clients, our people, and the capital markets. 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 200 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 benefit of our clients, our people and the capital markets.

## Our leadership

KPMG in Cambodia continually invests in our people, services and quality processes. We're focused on the research and development of services to help our clients achieve sustainable and strong business performance.

We're 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.

## Why select us

### Independent, clear and practical advice

Fast, effective and informed decision making is a business imperative in an increasingly complex business environment.

Our clients find our independent, objective and professional advice to be clear, concise and jargon free.

### Multidisciplinary and industry focused approach

Delivering independent, professional advice requires a multidisciplinary and industry focused approach. We can establish dedicated teams of professionals with deep industry experience from across KPMG's service divisions. It means our clients receive advice from professionals who understand their business.

### Global knowledge sharing

We understand that keeping our professionals constantly up-to-date on global technical and industry developments allows our clients to receive in-depth advice, no matter where in the world they do business. KPMG's global knowledge sharing system puts the latest technical and industry knowledge at our people's fingertips.

# Our Services

At KPMG, we understand that each industry has its own opportunities, issues and challenges. As such, our business has established industry or sector groups, enabling targeted, industry-specific experience and advice instead of solutions to be delivered where needed. For our clients, this focus on industry and country specific knowledge means we can deliver trained professionals who have an intimate knowledge of your specific business issues, as well as an overriding commitment to strive for the highest quality services. Through education, industry-focused training, and first-hand experience, our professionals have gained an in-depth understanding of the issues faced in a range of key industries.

## Sector Focus

### Our Sectors

Our professional teams share knowledge and develop their skills with a focus on industry sectors such as:



#### Consumer Market

Retail, Food & Beverage, Consumer Goods, Transport & Logistics



#### Financial Services

Banking, Insurance, Securities, Funds Management



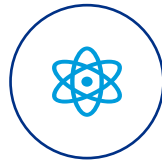
#### Infrastructure and Real Estate

Building, Construction & Real Estate, Infrastructure



#### Government & Healthcare

Government (ODA/NGO), Healthcare



#### Energy & Natural Resources

Oil & gas and mining projects, Pipelines, Refinery, Petrochemical, Retail & Distribution



#### Industrial Markets

Automotive, Chemicals, Diversified Industrials, Pharmaceuticals



#### Information, Communications & Entertainment

Electronics, Software & Services; Communications and Media





## Audit

- **Financial Statement Audit**
- **Reporting Accounting Services**
- **IFRS Reporting Services**
- **Maximum Assurance**
- **Other Forms of Assurance and Attestation reporting**

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, competitive 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 Audit** is based on the KPMG Audit Methodology. It is designed to facilitate our ability to form an opinion in accordance with applicable Financial Reporting Framework. We assist clients with the application of, and compliance with, local specific statutory reporting requirements for Cambodia as well as other regulatory or group reporting.

**Reporting Accountant Services** assist and provide guidance to clients at all stages of a fund raising process. We act as the reporting accountants by bridging the gap between the company and regulators, underwriters and legal counsel. Our professionals are experienced in public offerings, listings and private placements, both locally and internationally.

**IFRS Reporting Services** enables us to assist clients with the application of, conformity and reporting under International Financial Reporting

Standards (IFRS), when required and as appropriate. This takes on additional importance as countries move forward IFRS adoption.

**Maximum Assurance** is a new concept which extends audit's core assurance offering beyond the audit of financial statements. With our core audit skill set and our deep understanding of our clients business issues and risks faced, we can offer a broad and highly valued assurance services. These services include providing assurance on data, regulatory compliance, internal control, accounting matters or supporting on resources.

**Other Forms of Assurance and Attestation Reporting** includes Non-Financial Assurance Service, Agreed-Upon Procedures, and other types of self-reporting. Organizations have realized that financial reports alone do not adequately communicate either opportunities or business risks. KPMG's Non-Financial Assurance Services help organizations learn how to define, capture, and report on non-financial indicators. This helps them find new ways to safeguard their reputations, build trust among their stakeholders, and ultimately improve their corporate performance.

## Tax

- **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**

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 taxes**, such as VAT can be complex and costly. **Indirect Tax Services** 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 defence, 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.

## Advisory Risk consulting

- **Financial Risk Management**
- **Accounting Advisory Services**
- **Internal Audit, Risk Consulting**

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.

**Financial Risk Management.** We assist organizations to reinforce and enhance their in-house risk management and compliance resources. Our services cover a broad range of activities, including credit risk management, market and treasury risk management, anti-money laundering requirements and operational risk management.

**Forensic.** KPMG Forensic's 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.



## 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.

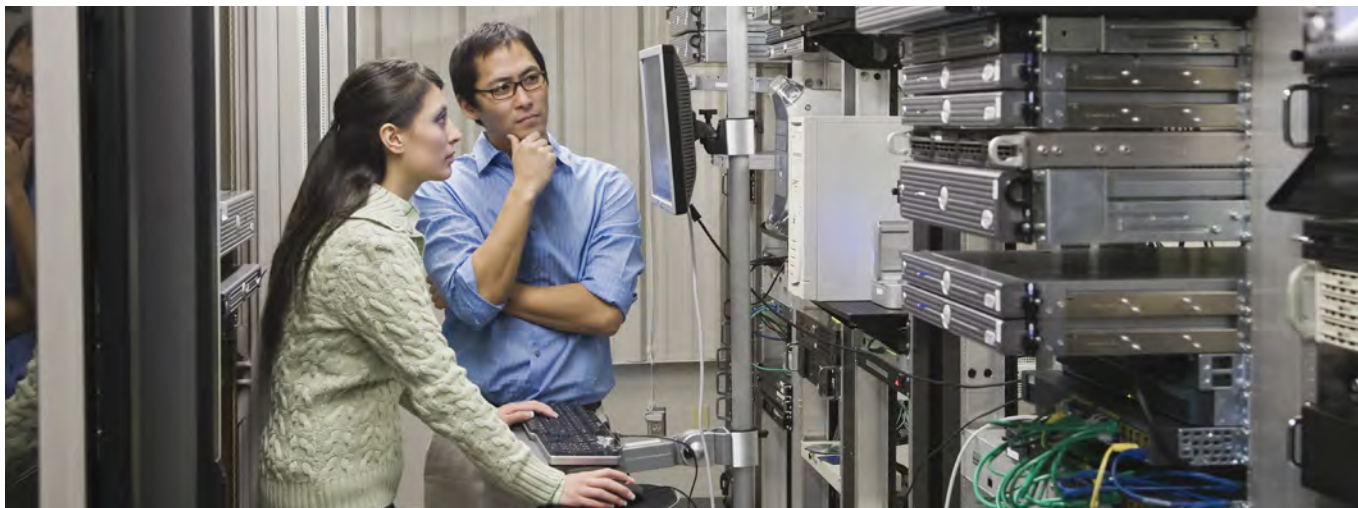
**Corporate Finance.** We help clients with M&A origination and deal management, target search, capital raising, strategic and financial analysis, pricing analysis, valuation, negotiation support and financial structuring. We can advise on project management of a merger or acquisition, from inception 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.





## 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 organisations 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, this can help provide greater confidence to external investors, business partners and the markets.

**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.

## Accounting & Payroll

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

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 teams' 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 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, Pay slip preparation, and the settlement of payroll related liabilities through trust accounts.



# Our People

We put a great deal of emphasis on ensuring our people enjoy their workplace as much as they do the professional challenge and career development. Our focus is on an open, friendly and collaborative culture, and it touches every part of our working lives.



It is essential that you choose a professional services firm that has the experience, range of services and people that will provide you with the support and knowledge that you need to be successful in Cambodia. That's why we believe that ongoing training of our professionals is essential for our success in helping ensure that our clients continue to receive high professional standards of service.

Our professionals are trained to follow KPMG policies and procedures to provide consistent delivery of services. A number of our staffs have also been seconded overseas for extended periods, returning to Cambodia staff with enhanced skills and international knowledge.

## Our Values

At KPMG, we take our values and reputation seriously. This professional reputation is vital to the success of our business, the integrity of our clients and the personal development of our people.

### What does this mean in practice?

**We lead by example** – at all levels acting in a way that exemplifies what we expect of each other and our clients.

**We work together** – bringing out the best in each other and creating strong and successful working relationships.

**We respect the individual** – respecting people for who they are, and for their knowledge, skills, and experience as individuals and team members.

**We seek the facts and provide insight** – challenging assumptions, pursuing fact and strengthening our reputation as trusted and objective business advisors.

KPMG professionals are guided by a set of common shared values, which establish how we behave with clients, colleagues and in the wider community.

**We are open and honest in our communication** – sharing information, insight and advice frequently and constructively and manage tough situations with courage and candor.

**We are committed to our communities** – acting as responsible corporate citizens by broadening our skills, experience and perspectives through work in our communities and protecting the environment.

**Above all, we act with integrity** – constantly striving to uphold the highest professional standards, provide sound advice and rigorously maintain our independence.

## KPMG and Corporate Social Responsibility

With outstanding professionals working together to deliver value in over 156 countries worldwide, we believe that our actions have an impact on the world that we are trying to build for ourselves and for future generations. This belief strongly reflects who we are as an organization.

Corporate Social Responsibility (CSR) has been a constant factor for us and is led by our senior leadership. CSR is about working together with our clients, non-government organizations (NGOs), stakeholders and local government to deliver solutions to social and environmental issues.

We are dedicated to contribute in a meaningful and sustainable way with three major areas to focus:

**Education** – To support underprivileged youth through formal or informal education, that could empower them to have a better future.

**Empowerment** – To support innovative programmes and NGOs that provide sustainable solutions to key social issues, with the goal of helping people to help themselves.

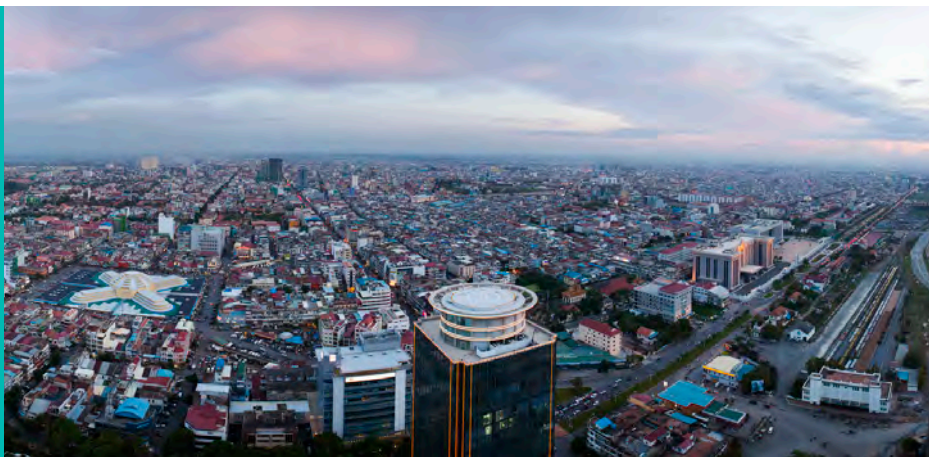
**Environment** – To support an environmental protection agenda by collaborating with external stakeholders working on key environmental issues and creating or participating in innovative programmes that provide sustainable solutions to resource issues.

# Setting Up Business In Cambodia





Generally, there are no restrictions on the setting up of businesses. However, many businesses require a license or permit to operate, including areas such as banking and finance institutions, tour agencies, real estate agencies, telecommunication, industrial factories, etc.



## Commonly used business entities

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

- a company 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

On 4 January 2016, the MoC launched its Online Business Registration Service. The new system is intended to allow companies, partnerships, and sole proprietors to apply for business registrations, keep their official information up to date, and complete the filings, without having to physically attend the MoC. Furthermore, payment of registration fees can be made via the electronic banking system in accordance with the MoC's Joint Prakas. A payment receipt will be issued by an automated system as evidence of payment.

## Main legal formalities for the new establishment and registration.

### 1. Company

The minimum registered capital is 4,000,000 Riels (approximately USD1,000). 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 standard memorandum and articles of association will have to be prepared for the company and lodged with the MoC, together with the prescribed information for incorporation.

### 2. Branch

Certain documents and information of the holding company and the Cambodian branch are required to be provided to the MoC for branch registration. The name of the Branch shall be the name of its principal.

A Branch office can carry out trading activities (sales and purchase of goods and services).

### 3. Representative Office (RO)

A RO is prohibited from undertaking profit making activities including the buying or selling of goods, or construction. The name of the RO shall be the name of its principal.

## 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 are required 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 operation, additional information on 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 etc). Also, 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.

## Qualified Investment Project (QIP)

Investors may apply for a QIP status by registering their projects with the Council for Development of Cambodia (CDC). However, a project with investment capital less than USD2,000,000 shall be registered with the provincial/municipal investment sub-committee.

A QIP will be entitled to certain incentives. A tax holiday period may be available up to a maximum of 9 years.



# Accounting/Finance for Companies and Cambodian Branches of Foreign Companies







## Financial statements

The National Accounting Council of Cambodia has decided to adopt International Financial Reporting Standards for Small and Medium-sized Entities and International Financial Reporting Standards (IFRS) issued by the International Accounting Standard Board (IASB) effective for Financial Statements with the period beginning on or after 1 January 2010 and 1 January 2012, respectively. The new standards will be referred to as Cambodian International Financial Reporting Standards for Small and Medium-sized Entities (CIFRS for SMEs) and Cambodian International Financial Reporting Standards (CIFRS). Public accountability entities are required to adopt CIFRS and non-public accountability entities that meet the audit requirements below are required to adopt CIFRS for SMEs or opt to use CIFRS, if necessary. Other entities can also adopt CIFRS for SMEs.

Pursuant to the request of the National Bank of Cambodia and the Department of Financial Industry of the Ministry of Economy and Finance, the National Accounting Council (NAC) of Cambodia, through their announcement on 25 February 2016, approved to delay the implementation of Cambodian International Financial Reporting Standards (CIFRS) to 2019 for banking and financial institution and general insurance companies.



## Audit requirements

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

- annual turnover above 3,000,000,000 Riels (approximately USD750,000)
- total assets above 2,000,000,000 Riels (approximately USD500,000)
- more than 100 employees

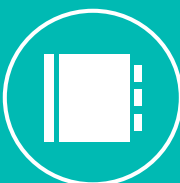
For QIPs registered with the Council for the Development of Cambodia in accordance with the Law on Investment, there is an obligation to submit their annual Financial Statements to be audited by an independent auditor registered with the KICPAA.



## Law on accounting & auditing

On 11 April 2016 the Law on Accounting and Auditing was promulgated by the Royal Kram no. NS/RKM/1215/016. This law set forth certain accounting requirements which includes but is not limited to the following:

- Enterprises and not-for-profit organizations are required to prepare financial statements within 3 months following the year-end.
- Financial statements form the basis for fulfilling tax obligations.
- Accounting records must be maintained and the underlying transaction shall be supported by proper vouchers.
- 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 accounting year end does not need to coincide with the calendar year, although any change must be approved.



# Other Compliance Requirements





### **Permission letter for registered office from municipality or provincial office**

In addition to registration with the MoC, a registration with the Phnom Penh Municipality or provincial commercial offices is necessary for confirming the business' registered address.



### **Annual Declaration of Commercial Enterprise (ADCE)**

All entities registered with the MoC in Cambodia are required on an annual basis to prepare and lodge with the MoC an ADCE.



### **Certificate of Compliance (CoC)**

Annually, all QIPs are required to obtain a CoC from the CDC to receive the investment incentives granted under the investment license. The CoC is intended to provide confirmation that the QIPs comply with relevant tax regulation.



### **Labour code compliance**

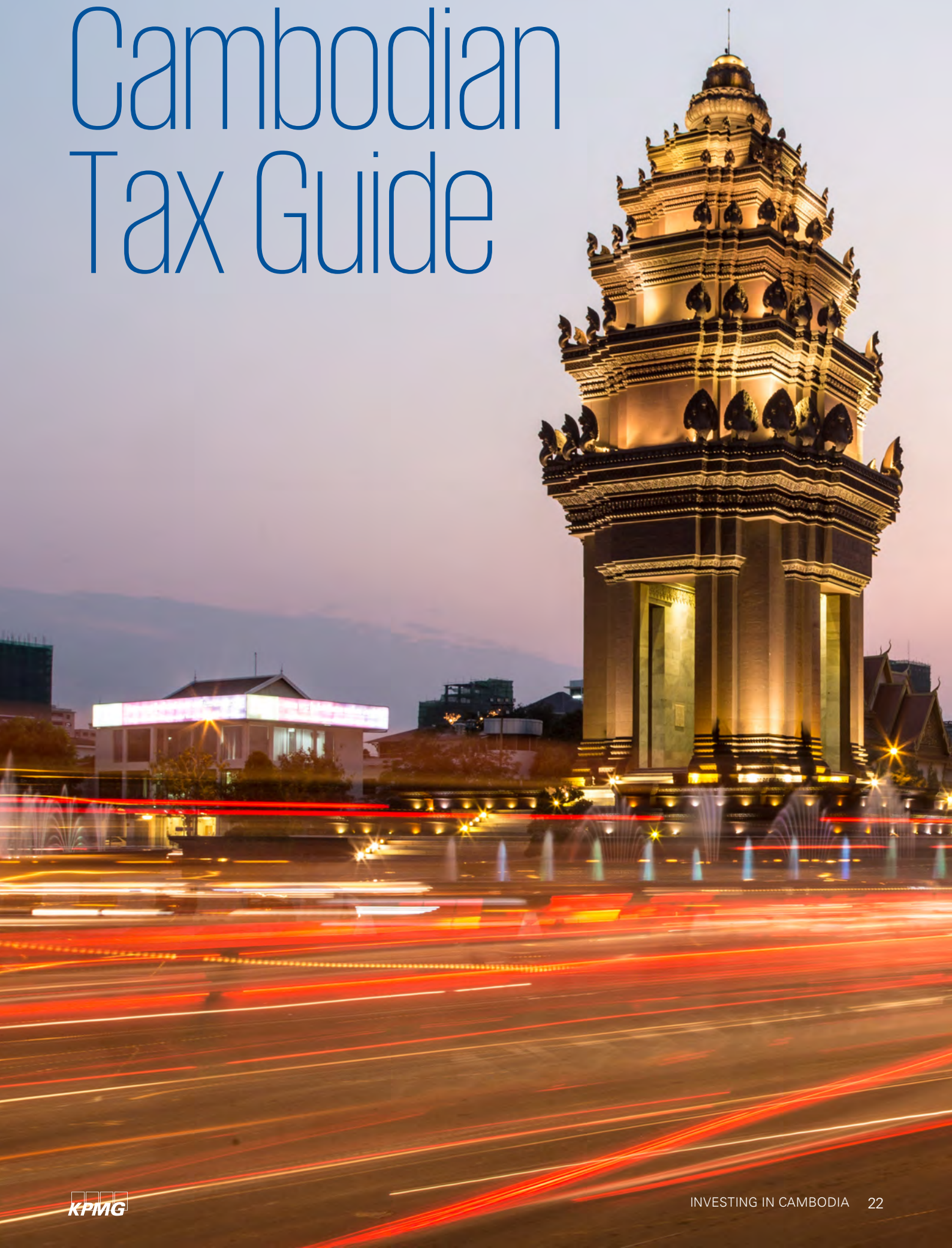
The enterprise is required to notify the Labour Office on an ongoing basis of any changes that may occur. The obligations for an employer under the labour code compliance include: initial registration requirement, declaration of staff movement in/out, annual application for quota of foreign workers, annual application for work permits of expatriate staff, registration of minutes of meeting for the election of staff representatives, etc.



### **National Social Securities Fund (NSSF)**

Every month, an employer or owner of an enterprise (8 staffs or more) shall report the number of workers/ employees and pay the required contribution of 0.8% of average monthly wage of workers/employees to NSSF by the 15th of the following month.

# Cambodian Tax Guide





# Overview



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 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.

Subsequent to the promulgation of the 2016 Law on Financial Management (LFM), the tax regime system has received a major restructuring. There is only one tax regime; the Real Regime Tax System (RRTS) which is further divided into three classes of taxpayers:

| Regime            | Turnover criteria  | Accounting standard                             |
|-------------------|--|---|
| • Small taxpayer* | <ul style="list-style-type: none"> <li>From KHR250 million (~USD62,500) to KHR700 million (~USD175,000) per annum, or</li> <li>More than KHR60 million (~USD15,000) for three consecutive months within the current calendar year</li> </ul> | • Simplified accounting standard                |
| • Medium taxpayer | • From KHR700 million (~USD175,000) to KHR2,000 million (~USD500,000) per annum  | • International accounting standard of Cambodia |
| • Large taxpayer  | • More than KHR2,000 million (~USD500,000) per annum   | • International accounting standard of Cambodia |

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

A medium and large taxpayer will be required to submit and pay taxes to the General Department of Taxation (GDT) on an annual and monthly basis. Such taxes are mainly as follows:

- Annual Tax on Profit or Minimum Tax ( see 1 & 1.14)
- Annual Patent Tax (see 3.5.3)
- Monthly Prepayment of Tax on Profit (see 1.14)
- Monthly Tax on Salary and Fringe Benefit Tax (see 2 - 2.7)
- Monthly Value Added Tax (see 3.1)
- Monthly Withholding Tax (see 3.5.1)

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



# 1. 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 6.2 for PE definition).

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

### 1.1 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.

### 1.2 Taxable Income

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

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

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

### 1.3 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 property and other assets are treated as ordinary income and are therefore subject to tax at the prevailing ToP rate.

### 1.4 Dividends

A dividend is defined as a distribution of property or money, made by a legal person to a shareholder. A distribution arising from a complete liquidation and stock dividend is specifically excluded from the definition of a dividend.

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.

### 1.5 Exempt Income

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

### 1.6 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 five percent of taxable profit of the taxpayer.

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



## 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.

## 1.7 Losses

Tax losses can be carried forward for a maximum of 5 years. 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.

## 1.8 Grouping/Consolidation

There are no grouping provisions in Cambodia.

## 1.9 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 classes 2 to 4 are accounted for on a pooled basis, and therefore capital gains or losses on the disposal of fixed assets are

not calculated individually but are calculated based on the result of the pooled asset account.

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

## 1.10 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.

All exploration and development costs of a natural resource, including interest, shall be capitalized and written-off in accordance with the depletion of the resource recorded as a percentage of the estimated total production from the resource.

## 1.11 Charitable contribution

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

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

## 1.12 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.

The interest expense as per points 1&2 above are still subject to the 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 profit 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.

## 1.13 Tax Rates

The Cambodian Tax Law provides corporate income tax or annual ToP rates as follows:

- 20% for the profit realized by a legal person.
- 30% for the profit realized under an oil or natural gas production sharing contract and the exploitation of natural resources including timber, ore, gold and precious stones.
- 0% for the profit of the QIP during the tax exemption period as determined by CDC.
- 5% on gross premiums received in Cambodia for Insurance Companies engaged in the insurance or reinsurance of life, property or other risks and 20% on non-insurance income.



## 1.14 Tax Administration

### Tax Identification Number

All individuals are required to register with the tax administration within 15 working days, starting 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 balance date. The tax year is generally a calendar year. The return must be filed irrespective of whether the company is making a profit or loss.

### Payment of Tax

A company is subject to a monthly prepayment of ToP (PTP) during the year, which is self-assessed at 1% on monthly turnover inclusive of all taxes except for VAT. However, insurance companies are required to declare and pay the monthly PTP at the

rate of 5% on gross premiums from insurance or re-insurance income and at the rate of 1% on non insurance related income. Payments of PTP are due by the 15th day of the following month.

The liquidation of the ToP is the balance of tax payable after deduction of all tax credits and PTP and must be paid upon the submission of the annual ToP return to the GDT by the 31<sup>st</sup> 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 ToP, 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 ToP 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 PTP.

### 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 or 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 10 years.

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 is exempted for Qualified Investment Project.





# 2. Taxation of Individuals

## Introduction

Individual residents of Cambodia are liable for personal income tax/tax on salary 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 or Cambodian tax payable on foreign source income. Employers are required to withhold income tax from salaries and other benefits paid to employees. The salary tax rate is based on progressive tax rates ranging from 5% to 20% (see 2.6).

### 2.1 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.

### 2.2 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.

### 2.3 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.

### 2.4 Deductions

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

### 2.5 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) | 75,000 |
| Dependent spouse (must be housewife)  | 75,000 |

### 2.6 Tax Rates

#### Residents

The personal income tax rates are as follows:

| Taxable Income for the Month (KHR) | Progressive Tax (%) |
|------------------------------------|---------------------|
| Up to 800,000                      | 0                   |
| From 800,001 - 1,250,000           | 5                   |
| From 1,250,001 - 8,500,000         | 10                  |
| From 8,500,001 - 12,500,000        | 15                  |
| Over 12,500,000                    | 20                  |

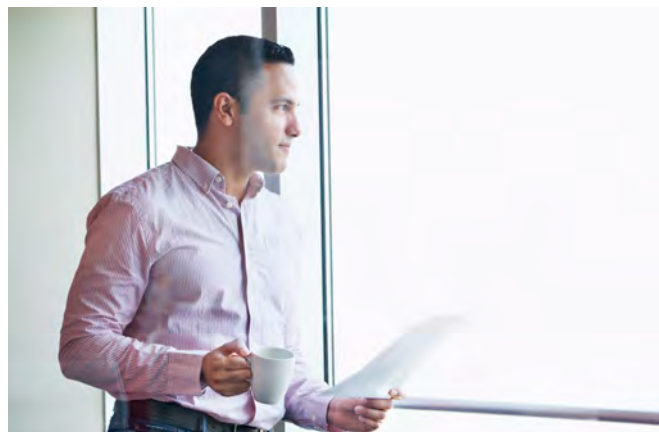
#### Non-residents

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

### 2.7 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 15th 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.





## 3. Indirect And Other Taxes

### 3.1 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.

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 the sale 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;
- supply of unprocessed agricultural products;
- supply of electricity; and
- supply of water for public use.

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 undertaking government contracts with a total taxable turnover exceeding KHR30 million.

VAT registration must be made at the commencement of business operations 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 the imported goods, including any customs duty, insurance and freight charges.



## 3.2 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.

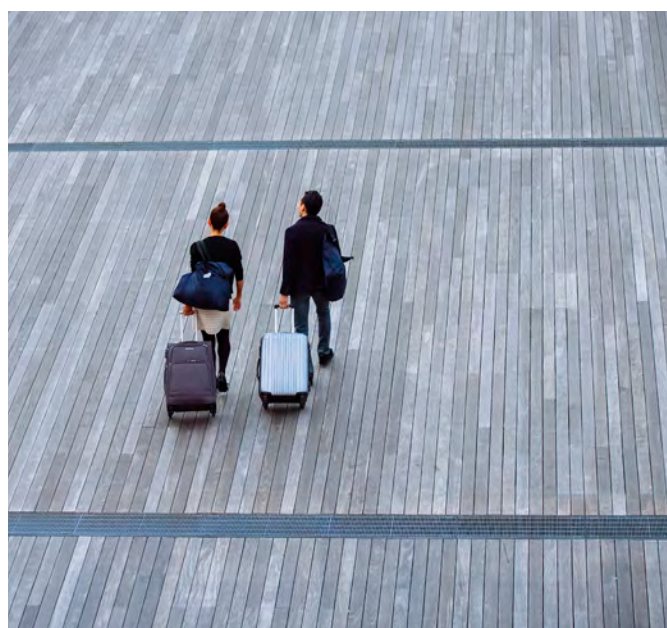
Payment of STCMS to the GDT is due on the 15th day of the following month.

## 3.3 Tax for Public Lighting (TPL)

TPL is a tax levied on the sale of alcohol and cigarette products, both imported and domestically manufactured, at each stage of supply. The tax rate is 3% of the value of the taxable product inclusive of taxes but not the TPL nor VAT. The tax is payable on a monthly basis, by the 15th day of the following month. The revenue from the collection of this tax shall be used to improve public lighting in cities and the provinces.

## 3.4 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 15th day of the month following the month in which the charges occur.



## 3.5 Other Taxes

### 3.5.1 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  | Rate (%) |
|--|----------|
| Payment for services to a physical person, including management, consulting, and other similar services <sup>3</sup>             | 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

A resident taxpayer carrying on a business who makes any of the following payments to a non-resident is required to withhold the non-resident WHT:

| Payment   | Rate (%) |
|---|----------|
| Interest  | 14       |
| Royalties, rent and other payments connected with use of property | 14       |
| Compensation for management or technical services                 | 14       |
| Dividends   | 14       |

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 15th day of the following month.

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

As of 20 May 2016, Cambodia signed a Double Tax Agreements (DTA) with Singapore, although it is still pending ratification for force of law. Otherwise, Cambodia has no DTA with any other country.

In relations to WHT, under this DTA the 14% WHT rate on the above payments will be reduced to 10% for any payment with Singaporean Non-resident.

<sup>3</sup>: The WHT is not applicable if the recipient of the payment is a real - regime tax payer, provided that a valid invoice is required to be obtained.

### 3.5.2 Additional Profit Tax on Dividend Distribution (APTDD)

APTDD is applicable to the distribution of retained earnings or annual profit after taxes that were subject to the following rates:

| ToP rate   | APTDD rate    |
|------------|---------------|
| 0%         | 20%           |
| 9%         | 12% (11/91) * |
| 20% or 30% | 0%            |

\* The 12% rate is applicable to only a Company which had its ToP at 9%. The 9% ToP expired in 2010.

Dividend distributions to Cambodian resident taxpayers, after payment of the APTDD are exempt income in the hands of the Cambodian resident taxpayer.

Payment of APTDD to the GDT is due on the 15th day of the following month in which the distribution is paid.

### 3.5.3 Patent Tax

Patent tax is a yearly business registration tax which all enterprises carrying on business activities in Cambodia are required to pay by 31<sup>st</sup> March. A “patent tax certificate” will be issued by the GDT upon registration and/or after each successive change or update with the Tax Office 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.

- Small Taxpayers: **KHR400,000 (~USD100).**
- Medium Taxpayers: **KHR1,200,000 (~USD300).**
- Large Taxpayers\*: either **KHR3,000,000 (~USD750)**, if annual turnover is between KHR2,000 million and KHR10,000 million; or **KHR5,000,000 (~USD1,250)** if annual turnover is over KHR10,000 million

\* Large Taxpayers is 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.

### 3.5.4 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 tariff reduction schedule under the Common Effective Preferential Tariff Scheme for the ASEAN Free Trade Area (CEPT for AFTA) since 1 January 2000.

To enhance the CEPT for AFTA into a more comprehensive instrument, the ASEAN Trade in Goods Agreement (ATIGA) entered into force on 17 May 2010. According to ATIGA, customs duty rate of most goods shall be from 0% - 5% by 2015.

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

### 3.5.5 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 and
- dissolution of a company

### 3.5.6 Property Transfer Taxes

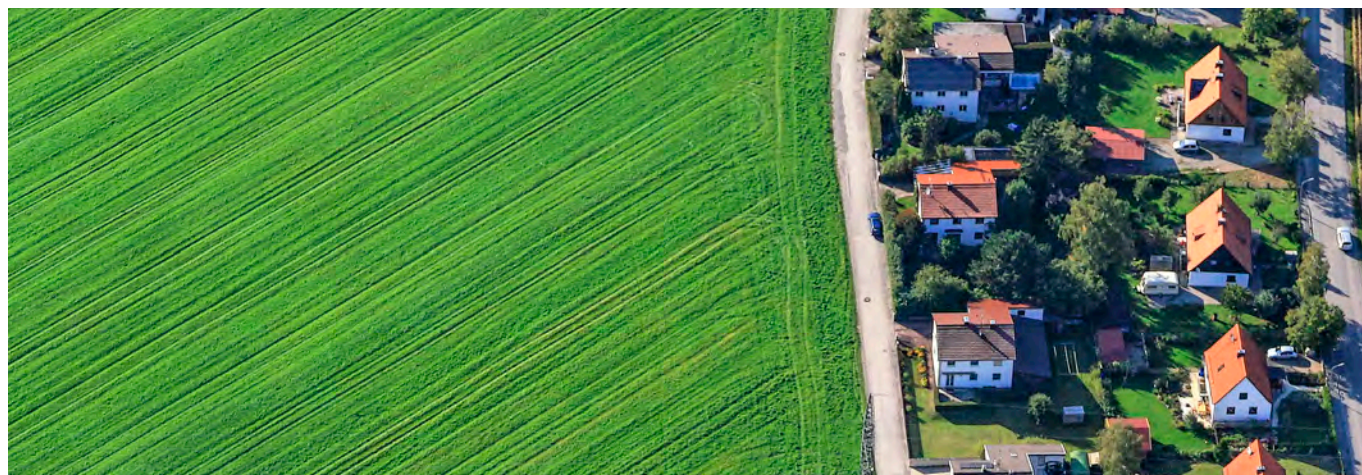
There is a 4% tax on the transfer of ownership or possession rights for immovable property or transportation means (such as land, building, vehicles).

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 3 months from the date of the transaction.

### 3.5.7 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.





### 3.5.8 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 will be 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 USD25,000). 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.

### 3.5.9 Tax Audit

The tax audit period in Cambodia can be for a maximum of 3 years after filing tax return. This period is extended to 10 years where there is evidence that the taxpayer has obstructed the implementation of the tax provisions or any time per taxpayer's request.

There are three main types of tax audit: desk audit, limited audit and comprehensive/final audit. A tax year which has been audited by the comprehensive/ final tax audit is considered as "closed".

*\* There are also other types, i.e. a special audit on VAT credits, an audit on VAT refunds...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

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

Recently, a "Committee for Tax Arbitration (CTA)" was set up, under the MEF. 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.

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



## 4. Tax Incentives

The Council for the Development of Cambodia (CDC) is the principal government agency responsible for providing incentives to stimulate investment in Cambodia. The Law on Taxation (LoT) was introduced in 1994 and substantially revised in 2003. Investors are required to submit an Investment Proposal to either the CDC or the Provincial-Municipal Investment Sub-committee (PMIS) to obtain a Qualified Investment Project (QIP) status depending on capital level and location of the investment project in question.

The 2003 Law on Amendment on the Law on Taxation (LALoT 2003) changed the way in which incentives are granted. Instead of a list of eligible sectors being provided in the legislation, a “negative list” was established. This means investment incentives would be available to all sectors not included on the negative list.

The investment incentives (generally) available to QIPs are:

- exemption from tax on profit (ToP) imposed by the LoT
- The ToP exemption consists of a Trigger Period (of up to 3 years), 3 years automatic exemption, plus a Priority Period that will be provided for in the Law on Financial Management. In effect, the tax exemption period could be maximum up to 9 years.
- accelerated depreciation on manufacturing assets (however, this is not available if the QIP elects to take the profit tax exemption in point 1)
- exemption from import duty on production equipment, raw materials and inputs to manufacture and
- the right to employ foreign labour.

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.

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

Listed companies that and publicly issue shares and/or debt securities approved by the Securities Exchange Commission of Cambodia (SECC) will also be granted for incentives as per indicated in page 6.

Garment and footwear manufacturing companies/enterprises also receive tax incentives in the form of a suspension of the monthly PTP until 2017.

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

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



## 5. International Tax



### 5.1 Double Tax Relief

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

### 5.2 Double Tax Agreements (DTA)

On 20 May 2016, Cambodia signed its first DTA agreement with Singapore. At the date of publication

of this guide, this DTA still requires ratification by both countries to become effective. In addition, Cambodia has also signed investment and trade agreements with a number of countries such as China, Indonesia, Malaysia, Germany, Switzerland, France, Singapore, Russia, United States of America, Laos, Philippines, Korea, India, Thailand, Bangladesh, Brunei, Uganda, Vietnam and Japan.

## 6. Anti-Avoidance Rules

### Introduction

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

### 6.1 Transfer Pricing

There is no specific Transfer Pricing legislation in Cambodia.

However, 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.

### 6.2 Permanent Establishment

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”.

As Cambodia has not entered into any DTAs with any other countries other than the not-yet ratified DTA with Singapore, the PE provisions under the DTAs or the OECD/ UN Model will be subject to the domestic law (and the interpretation of the GDT).

### 6.3 Thin Capitalization

There is no specific thin capitalization legislation but there are limitations on the deductibility of interest (see 1.11).

### 6.4 Controlled Foreign Company (CFC) Provisions

There is no CFC regime in Cambodia.

## 7. Foreign Exchange Control

All matters relating to the management of foreign exchange are carried out by the NBC. Although the KHR is the official currency of Cambodia, the USD is in common circulation and the majority of commerce is denominated in USD.

There are currently no restrictions on the repatriation of profits or capital from Cambodia, and the LALoT 2003 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.





# Glossary



|                |   |
|----------------|---|
| <b>APTDD</b>   | Additional Profit Tax on Dividend Distributions   |
| <b>AT</b>      | Accommodation Tax                                 |
| <b>CDC</b>     | Council for the Development of Cambodia           |
| <b>CoC</b>     | Certificate of Compliance                         |
| <b>DTA</b>     | Double Taxation Agreements                        |
| <b>GDT</b>     | General Department of Taxation                    |
| <b>LALoI</b>   | 2003 Law on Amendment on the Law on Investment    |
| <b>LALoT</b>   | 2003 Law on Amendment on the Law on Taxation      |
| <b>LFM</b>     | Law on Financial Management                       |
| <b>LoI</b>     | 1994 Law on Investment                            |
| <b>LoT</b>     | 1997 Law on Taxation                              |
| <b>MEF</b>     | Ministry of Economy and Finance                   |
| <b>NBC</b>     | National Bank of Cambodia                         |
| <b>QIP</b>     | Qualified Investment Projects                     |
| <b>PE</b>      | Permanent Establishment                           |
| <b>PMIS</b>    | Provincial/Municipality Investment Sub-Committees |
| <b>PTP</b>     | Prepayment of Tax on Profit                       |
| <b>PSC</b>     | Production Sharing Contract                       |
| <b>R&amp;D</b> | Research and Development                          |
| <b>RRTS</b>    | Real Regime Tax System                            |
| <b>STCMS</b>   | Specific Tax on Certain Merchandises and Services |
| <b>TIN</b>     | Tax Identification Number                         |
| <b>ToP</b>     | Tax on Profit                                     |
| <b>TPL</b>     | Tax for Public Lighting                           |
| <b>VAT</b>     | Value Added Tax                                   |
| <b>WHT</b>     | Withholding Tax                                   |



# OUR GLOBAL NETWORK

KPMG International Cooperative (“KPMG International”) is a Swiss entity that coordinating entity for the network of independent firms.

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| Angola                              | Gibraltar                         | Pakistan                       |
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| Austria                             | India                             | Portugal                       |
| Azerbaijan                          | Indonesia                         | Puerto Rico                    |
| Bahamas                             | Iraq                              | Romania                        |
| Bahrain                             | Ireland                           | Russia                         |
| Bangladesh                          | Isle of Man                       | Rwanda                         |
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| Belarus                             | Italy                             | Senegal                        |
| Belgium                             | Ivory Coast                       | Serbia                         |
| Bermuda                             | Jamaica                           | Sierra Leone                   |
| Bosnia and Herzegovina              | Japan                             | Singapore                      |
| Botswana                            | Jordan                            | Slovakia                       |
| Brazil                              | Kazakhstan                        | Slovenia                       |
| British Virgin Islands              | Kenya                             | South Africa                   |
| Brunei                              | Korea (Republic of)               | Spain                          |
| Darussalam                          | Kosovo                            | Sri Lanka                      |
| Bulgaria                            | Kuwait                            | St. Lucia                      |
| Cambodia (Kingdom of)               | Kyrgyzstan                        | St. Vincent and the Grenadines |
| Cameroon                            | Laos People's Democratic Republic | Swaziland                      |
| Canada                              | Latvia                            | Sweden                         |
| Cayman Islands                      | Lebanon                           | Switzerland                    |
| Channel Islands                     | Libya                             | Taiwan                         |
| Chile                               | Liechtenstein                     | Tanzania                       |
| China Colombia                      | Lithuania                         | Thailand                       |
| Congo (Democratic Republic of)      | Luxembourg                        | Togo                           |
| Congo (Republic of Congo)           | Macedonia (Republic of)           | Trinidad and Tobago            |
| Cook Islands                        | Malawi                            | Tunisia                        |
| Costa Rica                          | Malaysia                          | Turkey                         |
| Croatia                             | Maldives (Republic of)            | Turks and Caicos Islands       |
| Cyprus                              | Malta                             | Uganda                         |
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