Seize the opportunity

Investing in Cambodia

2024 and beyond

kpmg.com.kh

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

Global presence

Through helping other organizations mitigate risks and grasp opportunities, we can drive positive, sustainable change for clients, our people and society at large.

KPMG firms operate in 143 countries and territories, and in FY23, collectively employed more than 270,000 partners and people, serving the needs of business, governments, public-sector agencies, not-for-profits and through KPMG firms' audit and assurance practices, the capital markets. KPMG is committed to quality and service excellence in all that we do, bringing our best to clients and earning the public's trust through our actions and behaviors both professionally and personally.

We lead with a commitment to quality and integrity across the KPMG global organization, bringing a passion for client success and a purpose to serve and improve the communities in which KPMG firms operate. In a world where rapid change and unprecedented disruption are the new normal, we inspire confidence and empower change in all we do.

KPMG in Cambodia

KPMG in Cambodia was established in 1994. Today, with over 350 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 the technical and industry knowledge of our global network, means we have the tools and knowledge to gain a deeper 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 is committed to investing 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.

Nge Huy
Senior Partner
Head of Audit

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Cambodia economy overview

Market Overview

Economy

Cambodia has been one of the top-performing economies in Asia. As the country emerges from the social and economic effects of the Covid crisis, a rapid return to the high levels of growth seen pre-Covid is now anticipated.

Cambodia will see some positive effects from the Cambodia-China FTA and the Regional Comprehensive Economic Partnership (RCEP, a mega-regional trade deal) in 2022-26. The latter will promote inward investment by reducing regulatory uncertainty and harmonising standards.

Cambodia has a strong labour 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 number of measures to reduce production and supply costs and encourage further foreign investment.

Sustainability

Cambodia is one of the countries in the ASEAN region that has one of the lowest levels of CO_2 emissions (metric tons of CO_2 emissions per capita).

As part of the Kingdom's commitment to sustainable and inclusive economic growth, the Ministry of Environment launched the five-year Partnership for Action on Green Economy (PAGE) Cambodia on May 12, 2023.

The National Strategic Plan on Green Growth 2013-2030 and the Long-term Strategy for Carbon Neutrality (LTS4CN) are prominent examples of the Kingdom’s commitment to green-economy objectives. He noted that the latter strategy was submitted to the UN Framework Convention on Climate Change (UNFCCC) in 2021.

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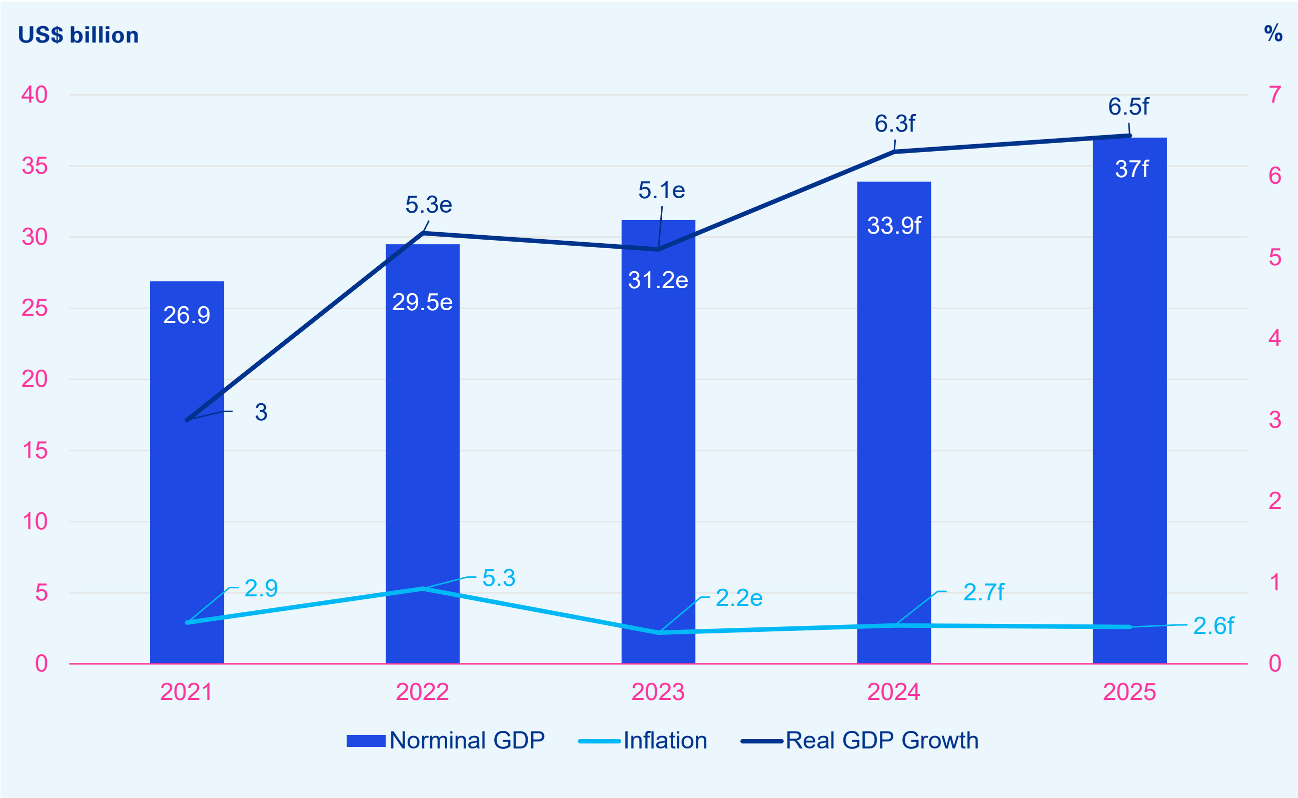
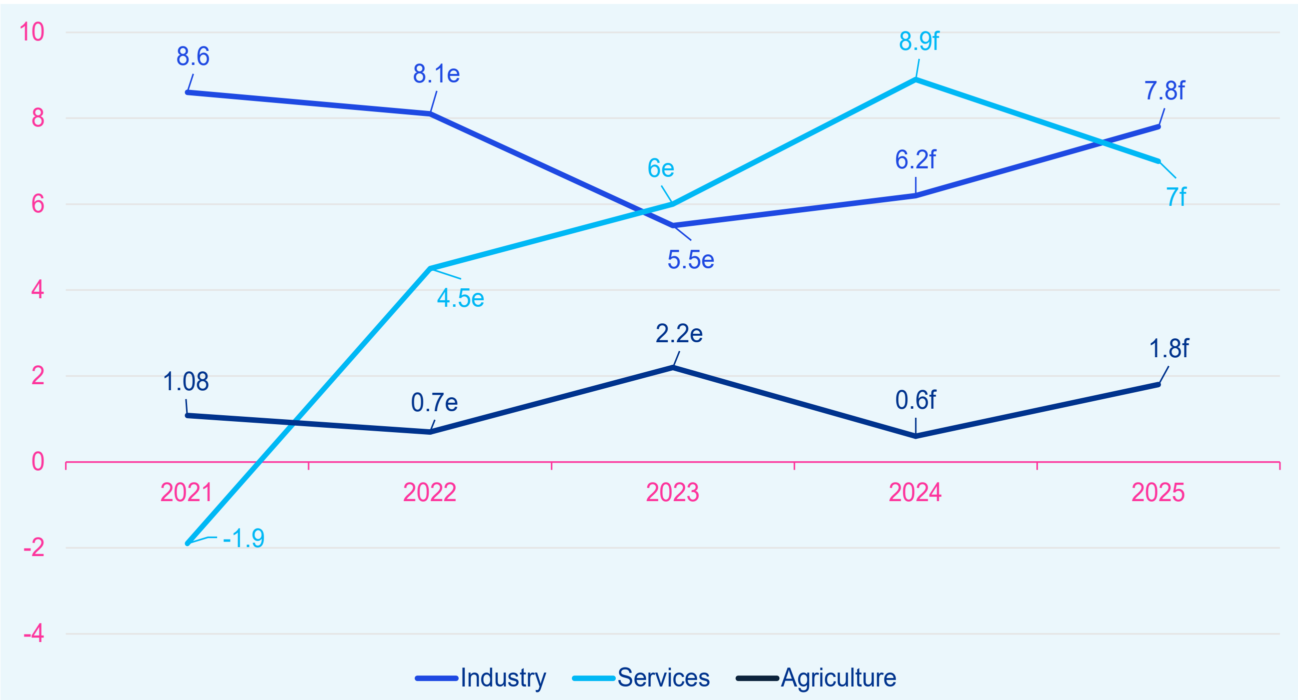
GDP, GDP Growth, Inflation



GDP by Sector (%)



Source: Economic Intelligence Unit

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Banking System

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

The minimum capital requirements for financial institutions are as follows:

- KHR 200 billion (~US$50 million) for a commercial bank incorporated as a foreign branch, whose parent bank is rated "Investment Grade"
- KHR 300 billion (~US$75 million) for a commercial bank incorporated as a foreign branch, whose parent bank is NOT rated "Investment Grade"; a foreign subsidiary or a local company
- KHR 60 billion (~US$15 million) for specialised banks incorporated locally
- KHR 120 billion (~US$30 million) for microfinance deposit-taking institutions
- KHR 6 billion (~US$1.5 million) for microfinance institutions.

Currency

The local currency, the Khmer Riel (KHR), was introduced in 1980. The Cambodian economy is classified as partially dollarised, given that the US dollar circulates in conjunction with the official national currency, as opposed than fully dollarised economies where the dollar is the only legal tender. Based on the economic and monetary statistics report issued in November 2022 by the National Bank of Cambodia, 89% of the deposits of Cambodian residents and non-residents are denominated in foreign currency.

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 labour costs and a dynamic workforce

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Land area

Approximately
181,035 Km^2

Population

2023e
16.94 Million

2024f
17.12 Million

Capital City

Approximately
Phnom Penh

Provinces & cities
25

Trade Balance

Import (2024f)
US$30.9 Billion

Exports (2024f)
US$26.3 Billion

Minimum Wages

2024
US$204/month

GDP Growth %

2023e
5.1%

2024f
6.3%

Nominal GDP

2023e
US$31.2 Billion

2024f
US$33.9 Billion

GDP/head (at PPP)

2024f
US$6,140

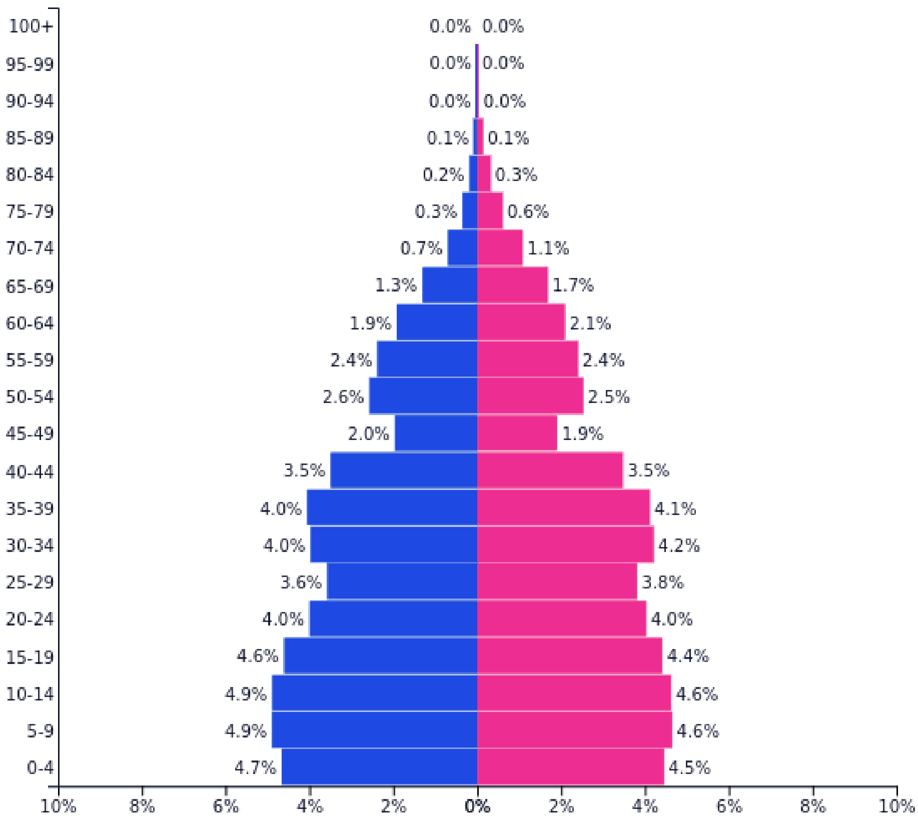
Exchange rate US$ to KHR

2024f avg.
4,133

Inflation

2024f
2.7%

Source: Economic Intelligence Unit



Source: populationpyramid.net/cambodia/2024/

Population of Cambodia 2024

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Cambodia Securities Exchange (CSX)

“

Listing on the stock market could have many benefits for the company. Among others, they could include raising capital for expansion and growth, providing transparency around the value of the business, encouraging employees’ commitment by rewarding them with something of real value, improving the public profile and reputation of the company by drawing the attention of investors and the media, and improving the confidence and standing of suppliers, investors and customers in the marketplace.

Nge Huy
Senior Partner
Head of Audit

The Regulator

The Securities and Exchange Regulator of Cambodia (SERC) regulates the securities industry in Cambodia. The SERC is established under the law on the Issuance and Trading of Non-government Securities.

Companies Listed on the CSX

As of 31 August 2023, there are 11 companies listed on the CSX, including three State-owned enterprises (SOEs) - Phnom Penh Water Supply Authority (PWSA), Phnom Penh Autonomous Port (PPAP), Sihanoukville Autonomous Port (PAS); and seven private companies - Grand Twins International (Cambodia) Plc (GTI), Pestech (Cambodia) Plc., Phnom Penh SEZ Plc (PPSP), DBD Engineering Plc. (DBDE), JS Land Plc. (JSL), CAMGSM Plc. (CGSM), MENGLY J. QUACH EDUCATION PLC. (MJQE) and one bank – ACLEDA Bank Plc.

Corporate bonds

As of 31 August 2023, the listed bonds on the CSX consist of government bonds issued by the Ministry of Economy and Finance and corporate bonds from 5 companies – RMA (Cambodia) Plc, Phnom Penh Commercial Bank (PPCB), Telcotech Ltd, Royal Railway Plc., and Golden Tree Co., Ltd.

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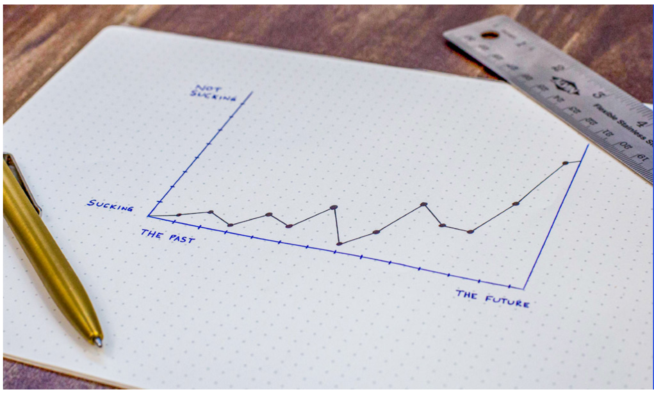
Key Operating Rules



Minimum trading unit
Price variance ranges from KHR10 to KHR1000, depending on share the price.

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

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

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Key Settlement Rules

Settlement time

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

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 is required from the seller

Clearing, settlement fees

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

Account opening

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

Stock Trading on the Exchange

The SERC 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 Wing Bank (Cambodia) Plc. are licensed as cash settlement agents by the SERC.
ACLEDA Bank Plc., Tricor Securities Services Plc., and Phnom Penh Securities Plc. are licensed as securities registrar & transfer agent, and paying agent by the SERC.

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Tax Incentives for Listing on the CSX

Equity Securities

Tax Incentive	Period	Criteria
Reduction of the annual Tax on Income (ToI) payable by a factor of 2.5% to 50%.	**3 years**, commencing at the beginning of the tax year that the approval was given if the securities were issued within the first 6 (six) months of the taxable year. If the securities were issued within the last 6 (six) months of the taxable year, the ToI incentive would take effect from the following year, or any period as approved by the Ministry of Economy and Finance (MoEF).	• Applicable for enterprises that issue their first public equity securities • **50% reduction of the ToI payable**, if the issuance size in proportion to the voting rights is at least 20.001% • **49.998% to 2.5% reduction of the ToI payable**, following a declining proportion if the issuance size in proportion to the voting rights is within 1% to 20%. However, the ToI incentive shall not exceed KHR20B (approx. USD5M)
50% reduction in Withholding Tax (WHT) on dividends	**3 years**, commencing from **24 February 2022** (the date of the implementation of this Sub Decree).	• Applies to public investors who are holding and/or buying-selling stock securities listed on the CSX.
Exemption from Capital Gains Tax (CGT)	**3 years**, commencing from **24 February 2022** (the date of the implementation of this Sub Decree).	• Applies to public investors who are buying-selling stock securities listed on the CSX.
Tax Debt Waiver covering ToI, WHT, VAT, Specific Tax, Accommodation Tax, Public Lighting Tax	**Up to 10 years (i.e., N-10)**	• **N-3 to N-10** shall apply for enterprises that fulfil the criteria for listing in the primary market. • **N-2 to N-10** for small and medium enterprises that fulfil the criteria for listing in the secondary market.

Debt Securities

Tax Incentive	Period	Criteria
Reduction of the annual Tax on Income (ToI) payable by a factor of 2.5% to 50%	**3 years**, commencing at the beginning of the tax year that approval was given if the securities were issued within the first 6 (six) months of the taxable year. If the securities were issued within the last 6 (six) months of the taxable year, the ToI incentive would take effect from the following year, or any period as approved by the Ministry of Economy and Finance (MoEF).	• Applicable to enterprises that issue debt securities with a maturity of at least 7 years. • 50% reduction of the ToI payable, if the issuance size in proportion to the total assets is at least 20.001%. • 49.998% to 2.5% reduction of the ToI payable, following a declining proportion if the issuance size in proportion to the total assets is within 1% to 20%. However, the ToI incentive shall not exceed KHR8B (approx. USD2M).
50% reduction in Withholding Tax (WHT) on interest	**3 years**, commencing from **24 February 2022** (the date of the implementation of this Sub Decree).	• Applies to public investors who are holding and/or buying/selling government bonds, or debt securities listed on the CSX.
Exemption from Capital Gains Tax (CGT)	**3 years**, commencing from **24 February 2022** (the date of the implementation of this Sub Decree).	• Applies to public investors who are buying-selling debt securities listed on the CSX.
Tax Debt Waiver	**Up to 10 years (i.e., N-10)**	• Same criteria as with equity securities above

The above mentioned incentives may be revoked if the taxpayer fails to comply with its monthly and/or annual tax compliance obligations, including the keeping of proper accounting records, and timely payment of tax.

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. SERC 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 SERC granted licences to seven underwriters and various market participants.

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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		Growth board
• KHR30 billion (US$7.5 million)	**Shareholders' equity**	• KHR2 billion (US$500,000)
• KHR2 billion (US$500,000) for the latest year; and • Cumulative KHR3 billion (US$750,000) for the latest two (2) years	**Net Profit**	• Positive net income for the latest year; or • Positive operating cash flow & gross profit margin 10%
• 200 shareholders; and • 7% of the total voting shares	**Shareholder**	• 100 shareholders; and • 10% of the total voting shares
• Two (2) years	**Audited Financial Statements**	• One (1) year
• KHR4,000,000 (US$1,000)	**Listing Eligibility Review Fee**	• KHR2,000,000 (US$500)
• 0.010% - 0.030% of total market capitalisation • Minimum KHR10,000,000 (US$2,500)	**Listing Fee**	• KHR4,000,000 or 0.025% of the total market cap, whichever is larger
• 0.005% - 0.020% of total market capitalisation • Minimum KHR3,000,000 (US$750)	**Annual Listing Fee**	• KHR4,000,000 or 0.015% of the total market capitalisation, whichever is larger
• Board members: At least 5 • Independent director: > 1/5 of total number of directors • If foreign independent director: >= 6 months of working experience in Cambodia	**Corporate Governance**	• Board members: At least 5 • Independent director: >= 1/5 of total number of directors • If foreign independent director: >= 6 months of working experience in Cambodia
• Audit Committee • Risk Management Committee: Assets >= KHR200 billion (US$50 million) • Nomination Committee: The Board consider establishing it and other Committees as necessary and as required by SERC	**BOD Committees**	• Audit Committee • Risk Management Committee: Assets > KHR200 billion (US$50 million) • Nomination Committee: The Board can consider establishing it and other Committees as necessary

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Setting up a business in Cambodia

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

Dary So
Partner
Head of Corporate Services

Commonly used business entities

Registering a business may involve a series of ministries / institutions. The Ministry of Commerce (MoC), General Department of Taxation (GDT), and Ministry of Labour and Vocational Training (MLVT) are the three main ministries / institutions that an investor is required to deal with in order to register a business. In general, businesses operate in Cambodia via the following vehicles:

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

IT business registration platform

Cambodia utilises an IT business registration platform which allows investors to register a business at the MoC, GDT and MLVT through a single platform. Normally, the registration process takes around 8 working days following which the registered entity will receive all digital licences or certificates. Payment for registration fees can be made via the electronic banking system. A payment receipt is issued by the automated system as evidence of payment.

Note that if your business is required to register at ministries/institutions other than the MoC, GDT, and MLVT, the investor will need to follow additional registration procedures specific to those relevant ministries/institutions.

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Main legal formalities for the establishment and registration of a new corporate entity

1. Company

The Law on Commercial Enterprise (LCE) and the Amendment on the LCE are silent on minimum capital requirements. However, note that for certain licensed activities, there are minimum capital requirements that are required to be met. Generally, there is no restriction on foreign ownership, except in relation to land holding. The name of a company must be approved by the MoC.

A memorandum and articles of association (M&A) must be prepared for a company and lodged with the MoC, together with the prescribed information for incorporation.

Under the Amended LCE, a limited company with a registered address in Cambodia must appoint a company secretary who is a natural person with permanent residence in Cambodia and who is physically fit and competent to perform the work.

2. Branch

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

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

3. Local Branch

It is a legal requirement for a partnership or limited liability company to register a local branch when a new location for the business is established. A local branch acts as an agent of the principal company and has no separate legal personality from the principal company.

4. Commercial Representative Office (CRO)

A CRO is prohibited from undertaking profit-making activities including the sales of goods or services and construction. A CRO is required to use the name of its principal e.g., " Commercial Representative Office of XYZ Co., Ltd.".

Requirements for all companies and investors

For a company, the full name, address and nationality of the investors, as well as the number of shares held in the company by each investor are required to be disclosed to the MoC.

For a Branch of a foreign company, 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 CRO, the requirements are the same as for a Branch.

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

Qualified Investment Projects (QIPs)

Both foreign and domestic investors may apply for QIP status by registering their project with the Council for the Development of Cambodia (CDC), providing their scope of the investment does not fall under the list of ineligible investment activities (“Negative List”) or falls below the minimum investment capital thresholds.

The level of incentives depends on the investment activity category. This is divided into three categories based on whether the investment is in a high, medium or low technology sector, and if the investment falls within a priority sector as set by the government.

An investment company is required to establish and register with the relevant authorities in the form of a Limited Liability Company (i.e., Private Limited Company) to obtain QIP status and be entitled to some or all of the available investment incentives.

Nominee of Shareholder (Disclosure of the shareholder’s identity)

Shareholders who do not intend to disclose their identity in the M&A of a limited company can appoint a nominee (a natural or legal person) to represent them instead. However, information on the identity of the shareholder and the shareholder’s nominee agreement shall be recorded with the MoC.

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Accounting and reporting requirements

Accounting records & financial statements

The Cambodian Accounting and Auditing Regulator (ACAR), has adopted International Financial Reporting Standards (IFRS) for Small and Medium-sized Entities (SMEs) and IFRS, issued by the International Accounting Standard Board (IASB). 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). Except for non-profit organisations, public accountability entities and specialised banks are required to adopt CIFRS while non-public accountability entities that meet the audit requirements (as set out on the following page) are required to adopt CIFRS for SMEs or opt to use CIFRS, if preferred. In practice, non-public accountability entities that do not meet the audit requirements are also required to adopt CIFRS for SMEs or opt to use CIFRS, if preferred. Not-for-profit entities established in compliance with the Law on Associations and NGOs are required to apply the Cambodian Financial Reporting Standards for Not-For-Profit Entities (CFRS for NFPEs), or alternatively, submit a specific request to ACAR to apply CIFRS for SME. All enterprises, including Not-for-Profit Entities, are required to lodge their financial statements with ACAR using ACAR's E-filing system. The date of lodgement is within 3 months and 15 days of the year-end for entities which do not require a financial statement audit and within 6 months and 15 days of the year-end for entities which do require a financial statement audit.

Law on Accounting & Auditing

The Law on Accounting and Auditing sets forth certain accounting requirements which include, but are not limited to the following:

- Enterprises and Not-for-Profit-Entities 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 should be in Khmer language (with some minor exceptions)
- Financial statements should be in Khmer language and include the Khmer Riel as a presentational currency (if the entity's functional currency is a currency other than Khmer Riel).
- Enterprises and Not-for-Profit-Entities are obligated to maintain their accounting records for a period of ten (10) years.

Book year

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

Audit requirements

All enterprises and Not-for-Profit-Entities that meet the criteria set out in Prakas No. 563SHV of the Ministry of Economy and Finance must submit their annual financial statements to be audited by an independent auditor (see the illustrations on the following page for details on the criteria). The audit must be carried out by an auditor registered with the Kampuchea Institute of Certified Public Accountants and Auditors (KICPAA).

For Public Enterprises, Public Interest Entities (PIEs), and Qualified Investment Projects (QIPs) 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 irrespective of whether they meet the criteria outlined in articles 5 and 6 of Prakas No. 563SHV or not.

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Penalties for non-compliance

Sub-Decree No. 79 ANKr.BK issued on June 1, 2020, and effective since 11 September 2021 sets out a series of penalties for violations of the Law on Accounting and Auditing. This Sub-Decree provides ACAR with the power to penalise enterprises that do not comply with the various requirements of the Law on Accounting and Auditing.

Under the sub-decree, first offences are penalised with financial penalties and repeat offenders are subject to increasingly large financial and non-financial penalties.

- Total expenses of above KHR2,000,000,000 (approximately US$500,000)
- Average employee number of 20 and above

Audit requirements—NGOs

- Should meet all criteria
- If not, financial statements submission on a <u>voluntary basis</u>

Prakas 563MEF.Prk dated 10 July 2020 on the Obligations to get Financial Statements audited by an Independent Auditor

- Annual turnover of KHR4,000,000,000 (approximately US$1,000,000) and above
- Total assets of KHR3,000,000,000 (approximately US$750,000) and above
- Average employee number of 100 and above

Audit requirements—Commercial Entities

- Meet 2 out of 3 criteria

Prakas 563MEF.Prk dated 10 July 2020 on the Obligations to get Financial Statements audited by an Independent Auditor

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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 three social security schemes: the "occupational risk scheme", the "healthcare scheme", and the "pension 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. Contributions for the occupational risk and healthcare schemes are wholly borne by the employer or owner of an enterprise / establishment, whereas contributions for the compulsory pension scheme are borne 50% by the employer and 50% by the employee. The pension scheme is a new government initiative, coming into effect on 1 October 2022.

Annual Declaration of Commercial Enterprise (ADCE)

All entities registered with the MoC are required to prepare and file an ADCE with the MoC once a year. The filing must be done within three (3) months from the due date as notified by email from the MoC. In addition, starting from 1 January 2023 onwards, entities are required to register a national domain name (.com.kh), and must use this national domain email address when filing their (ADCE) with the MoC.

Labour Law Compliance

Enterprises with at least one (1) employee are required to register with the MLVT. After the initial registration, enterprises are required to notify the labour office on an ongoing basis of any relevant changes, such as staff movements and other amendments in the online system. Enterprises wishing to employ foreign staff must apply for a foreign manpower quota (FMQ) annually and for work permits for foreign staff.

All enterprises/companies shall be subject to penalties for failure to apply for FMQs and work permits within the deadline.

Other obligations for employers, having 8 staff or more, will include registration of internal work rules and fulfilling trade union and staff representative election requirements.

Most labour filing and registration requirements with the MLVT for local and foreign staff can be processed in 2 online systems, the so-called Labour Automated Centralised Management System (LACMS) and the Foreign Workers Centralised Management System (FWCMS).

From 1 June 2022, all enterprises/companies/factories under the scope of the Cambodian Labour law have a compulsory obligation to make a self-declared labour inspection online two (2) times a year, the first time before the end of June and the second time before the end of December each year. All enterprises/ companies/factories shall be subject to penalties for failure to comply with the requirements above.

Liquidation and de-registration

Currently, no formally established procedure for the voluntary liquidation of a registered entity in Cambodia exists. This process historically required the appointment of a director of the company as the liquidator. Upon the promulgation of the Law on Amendment of the Law on Commercial Enterprise on 29 January 2022, new requirements exist for the process, including that a liquidator must be appointed by the Shareholder and that the liquidator must also be an Auditing and/or Accounting Firm licensed by the Accounting and Auditing Regulator (ACAR). Additionally, any legal entity providing liquidation services is required to have at least one (1) lawyer who is a member of the Bar Association of the Kingdom of Cambodia or must have a Memorandum of Understanding (MoU) with a law firm. Responsibilities of the liquidator include requirements to prepare and sign a Liquidation Report to confirm its contents as part of the liquidation process and to maintain the accounting records, financial statements, and other records on behalf of the de-registered entity for up to 10 years.

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Cambodia tax guide

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

Mona Tan
Partner
Head of Corporate Tax

Effective from 16 May 2023, the new Law on Taxation (2023 New LoT) abrogates the former LoT, dated February 24, 1997, the amended LoT dated 31 March 2003, and other regulations that are contrary to this 2023 LoT. The existing Sub-Decrees, Prakas (a regulation) and Instructions, implementing the provisions of the old LoT remain to be valid unless otherwise amended by the specific provisions of this New LoT, or by subsequent Sub-Decrees, Prakas, or Instructions.

Overview

Taxpayers under the self-assessment regime (SAR) are categorised into three classes of taxpayers:

Taxpayers	Classification criteria	
	Business Sector	Annual Turnover
Small	Agriculture, Service, Commercial	KHR250M – KHR1,000M (approx. US$62.5K – US$250K)
	Industrial	KHR250M – KHR1,600M (approx. US$62.5K – US$400K)
Medium[1]	Agriculture	KHR1,000M – KHR4,000M (approx. US$250K – US$1,000K)
	Service and Commercial	KHR1,000M – KHR6,000M (approx. US$250K – US$1,500K)
	Industrial	KHR1,600M – KHR8,000M (approx. US$400K – US$2,000K)
Large[2] (Type 1)	Agriculture	>KHR4,000M (approx. US$1,000K)
	Service and Commercial	>KHR6,000M (approx. US$1,500K)
	Industrial	>KHR8,000M (approx. US$2,000K)
Large (Type 2)	All sectors	>KHR10,000m (approx. US$2,500K)

Small taxpayers must also follow the "simplified" tax compliance process and can file monthly taxes through an application. Medium and large taxpayers must file their taxes through GDT's online system.

1: Including legally registered entity, the Representative Offices.
2: Including all Branches of foreign entity, and QIP-registered entities.

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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 a Cambodian resident for tax purposes if it is found to have a Permanent Establishment (PE) in Cambodia (see page 40 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 a resident in Cambodia if:

- It is organised 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 of adjustment of accounting results in the tax year in accordance with the provisions on taxation.

For physical persons, taxable income is the result of total income in the tax year offset by expenditures and other allowances (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

Capital gains realised by resident legal entities shall be treated as income, 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 the 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

Deductions

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

Allowable Deductions

Allowable deductions include expenses incurred in the course of carrying on a business, with certain conditions/limitations based on the nature of the expense.

Non-deductible Expenses

Non-deductible expenses include:

- Increase in provisions (except provision made by bank and financial institution which is covered by separate rules)
- Any expense on activities generally considered to be amusement, recreation, entertainment

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- Personal expenses, except for fringe benefits which are subject to fringe benefit tax
- Any loss a 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
- Extravagant and/or unrelated business expenses
- Unpaid salaries and related party expenses, subject to the deductibility rules and compliance with the "180-day rule" payment period as per recent ToI Prakas No.098

Losses

Tax losses can be carried forward for generally a maximum of five (5) years (except for tax loss from petroleum and mineral resource operations which are covered by separate rules). Losses cannot be carried back. Tax losses may be forfeited depending on certain criteria (e.g., change in business activity or if the taxpayer is subject to a unilateral tax reassessment).

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. Depreciable assets are divided into the following classes/categories, and are depreciated at the following rates:

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Class	Annual Turnover
Intangible Assets	Straight line based on useful life or 10% straight-line if no specific useful life. Purchased goodwill (i.e., forming part of the intangible asset) is allowed to be amortised.
Natural Resource	Depletion shall be allowed as a deduction in reference to the total production during the year and the estimated total production from the natural resource
Agricultural Assets (e.g., rubber plantations, other agricultural crops, animal husbandry)	For rubber crops, a depreciation rate shall be allowed for a period of 20 years with a depreciation rate of 3% to 5%, depending on the turnover year.
	Non-rubber agricultural crops shall be depreciated on a straight-line basis based on the expected life of production or 5% per year, whichever is shorter
	Animal husbandry shall be depreciated on a straight-line basis based on the expected life of production or 5% per year, whichever is shorter
Class 1 Buildings & Structures	10% straight line depreciation shall apply to "non-concrete" assets 5% straight line depreciation shall apply to "concrete" assets
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

Tax depreciation (i.e., full year) shall commence in the tax year when the asset was put into service, or in the commencement year of production. No tax depreciation shall be claimed in the year of disposal.

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

Charitable contribution

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

Unutilised charitable contribution expenses cannot be carried forward as a deduction against taxable income in future years.

Interest Expense

There is no specific thin capitalisation legislation in Cambodia; however, a limitation on interest expense deduction is provided under the ToI regulation, as follows:

- The deduction for interest expense shall be limited to an amount equal to the total interest income plus 50% of "net non-interest income" earned for the year. Net non-interest income is gross income, other than interest income, less allowable non-interest expenses.

- Interest expenses, which are not allowed for deductions in the current tax year, can be carried forward as interest expenses for subsequent tax years in the same limitation until the 5th tax year in the order of the year the interest was incurred.

- Interest expense to related parties shall be allowed as a tax deduction (i.e., applying the "180-day" rule). This is still subject to the interest expense limitation rule as mentioned above.

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- Interest rates between related parties must comply with the requirements under the TP regulations on the "arms-length" principle, and the keeping of proper TP documentation.

Petroleum and mineral resource operations shall be subject to different rules on interest expense deduction.

Tax Rates

- The Cambodian Tax Law provides the following corporate income tax or annual ToI rates:
- 20% on taxable income realised by a legal person.
- 30% on taxable income realised in oil or natural gas production sharing contracts or realised from the exploitation of natural resources including timber, minerals, gold and precious stones. Tax on Excess Income (ToEI) shall also apply.
- 5% on taxable income on insurance or reinsurance activities on property risk
- 0% on taxable income of the QIP during the tax exemption period.

Tax on Petroleum and Mineral Resources Operations

Taxpayers conducting Petroleum and Mineral Resources operations shall be subject to:

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

* Tax on Excess Income (ToEI) at a progressive tax rate by tranche based on:

Specific rules on depreciation, deduction, and transfer of interest shall apply, as follows:

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%

- Transfers (in part or in full) of interest in rights or shares in a mineral resource agreement shall be treated as a taxable transaction subject to the applicable tax
- Loss carried forward is allowed until the tenth (10) year for petroleum operations and the fifth (5) year for mineral resource operations
- Losses incurred in a contract area cannot be carried forward and/or offset as a deduction in another contract area
- Deduction for interest expense is subject to a debt to-equity ratio of 3:1
- Deductible provision for decommissioning cost reserve based on an approved decommissioning plan. If the actual decommissioning cost is higher than the decommissioning plan claimed as a deduction, the difference shall be treated as a deductible expense, otherwise, the difference shall be treated as a taxable income
- Specific depreciation rules are set on depreciating prospecting, exploration, and development costs

Sales agents supplying goods on behalf of principals

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

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

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Tax Administration

Tax Identification Number (TIN)

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.

For QIP-registered enterprises, separate TIN should be maintained per activity (e.g., QIP and non-QIP activities).

Tax Returns

The annual tax return must be filed within 3 months following the tax year. The tax year is generally a calendar year unless the taxpayer obtains specific approval to use a different taxable period other than the calendar year. The return must be filed irrespective of whether the company is making a profit or loss. The GDT requires taxpayers to submit the ToI via the GDT's online tax return management system, i.e. E-filing.

Meanwhile, monthly tax returns are due for filing by the 25th day of the following month via the GDT's E-Filing system.

Payment of Tax

A company is subject to a monthly prepayment of ToI (PToI)[1] during the year, which is self-assessed at 1% on monthly turnover (i.e. unless the taxpayer is exempted from the PToI based on certain conditions). Payments of PToI are due by the 25th day of the following month through the E-Filing system.

The total monthly PToI paid during the year shall be claimed as tax credits against the annual ToI or MT payable, whichever is higher, at year-end. The remaining tax payable must be paid within 3 months following the tax year[3] (i.e., the same deadline for the lodgement of the annual ToI return). Excess tax payments may be carried forward to the succeeding taxable periods.

Meanwhile, a 1% Minimum Tax (MT)[2] shall be computed based on the gross annual turnover (i.e., unless the taxpayer is exempted from the 1% MT, based on certain conditions). The taxpayer shall be liable for the annual ToI or MT, whichever is higher.

Tax Credits

The following tax credits may be claimed as a deduction against the ToI payable at year-end:

- Monthly PToI paid during the taxable year
- Excess tax payments from the previous taxable period
- Advance Tax on Dividend Distribution (ATDD) payments (see below related discussion on ATDD)
- WHT credits withheld by payors, which must be properly substantiated
- Foreign tax credits on tax paid overseas on foreign source income, provided the same is properly substantiated and subject to certain limitations
- Special tax credits granted to specific industries and/ or activities as provided by the government under specific regulations

1: A tax year Is the calendar year, but an enterprise can apply for a tax year other than the 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 taxpayers 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% PToI 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 2025.

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Record Keeping

Taxpayers are required to keep books of accounts, accounting records and other relevant documents for a period of 10 years, after the end of the tax year. The taxpayer must maintain accounting records in accordance with the accounting standards in effect in the Kingdom of Cambodia. For QIP-registered enterprises, separate books of accounts should be maintained per activity (e.g., QIP and non-QIP activities).

Taxpayers are also required to maintain accounting records in Khmer language and Khmer Riel. Failure to comply with the above requirements may result in a unilateral tax assessment being issued by the GDT.

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Taxation of individuals

Introduction

As of date, Cambodia has yet to implement a personal income tax regime and there is no requirement to submit a personal income tax return to the GDT. Currently, tax on income earned by individuals from their employment activities is withheld by the employer and remitted to the GDT through the monthly filing of the Tax on Salary (ToS) and Fringe Benefits Tax (FBT). Salary is taxed according to progressive tax rates ranging from 5% to 20%, while fringe benefits are subject to a flat rate of 20% based on the fair market value (FMV) of the benefit.

Individual residents of Cambodia are subject to income tax on their 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 (subject to certain limitations), provided the same is properly substantiated.

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 in the current tax year.

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 tax on salary. Remuneration includes salary, wage, bonus, overtime, and other compensation. A fringe benefits tax on employer-provided cars, housing, low-interest loans, and free, subsidised or discounted goods and services is levied on employers based on the FMV of the fringe benefits. 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 itself except for the fringe benefit tax itself.

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 Labour Law;
- Additional remuneration received with social characteristics as provided in the Labour Law and Social Security Schemes Law;
- Supply of free or subsidised 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 the Undetermined Duration Contract (UDC) are entitled to annual seniority indemnity payable twice per year. This payment shall be exempted from ToS for an amount up to KHR4,000,000 (~$1,000).

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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 Labour Law),
- Meal allowances were 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 premiums were 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 for 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 filing and payment of ToS and FBT to the GDT is due by the 25th day of the following month via the GDT's E-Filing system. The monthly ToS and FBT declaration is considered to be a final tax for individuals as there is no requirement to submit a separate personal income tax declaration.

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 (effective from 1 January 2023):

Taxable Income for the Month (KHR)	Progressive Tax
From 0 - 1,500,000	0%
From 1,500,001 - 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%.

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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. Subject to compliance with certain conditions, the zero rate applies to the export of goods and services, certain charges in relation to the international transport of people and goods, supply of goods and services by supporting industries QIP/contractors to particular export industries.

Exported services

To qualify as an exported service (i.e., subject to 0% VAT), it is not sufficient to prove that the supply is billed to a non-resident person, but to also prove that the services (or portion thereof), do not relate to, were not consumed, or benefit any business or operations in Cambodia (i.e., the burden of proof is on the taxpayers). Documents such as contracts, bank statements, invoices, etc., must also be maintained for the GDT's review.

Imported services

For business-to-business (B2B) E-commerce transactions, the VAT on the transaction shall be accounted for via the "reverse charge" mechanism. Under the "reverse charge" mechanism, the resident taxpayer receiving the supply from the non-resident taxpayer shall account and pay for the output VAT on such supply on behalf of the non-resident taxpayer. Correspondingly, input VAT shall be allowed as tax credits based on the current tax regulations in effect (Articles 6 & 7 of Sub Decree No.65).

As of date, it seems that the "reverse charge" mechanism on imported services only applies to E-commerce transactions as provided under Sub-Decree No.65.

Imported goods

10% VAT shall generally apply to all goods imported into Cambodia based on the value of the imported goods, including any customs duty, insurance, and freight charges. Certain importation of goods may not be subject to import VAT (e.g., VAT state-charge importation, importation of non-commercial goods).

Exempt Supplies

The following are considered exempt supplies, not subject to VAT:

- 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 recognised by the Ministry of Economy and Finance (MoEF);
- 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

VAT State-charge

VAT on certain supply and import of certain agricultural products shall be borne by the State (i.e., State Charges). Domestic supplies of certain basic foodstuffs such as meat, eggs, fish, spice, sauces, etc. shall be considered VAT State-charge transactions as per relevant Prakas.

VAT Registration

Taxpayers in Cambodia who are registered under the self-assessment regime shall be assigned a VAT registration number. Generally, such VAT number shall be used by the said taxpayer in its tax compliance obligations in Cambodia (including direct and indirect).

Sub Decree No.65 was issued on 8 April 2021 implementing certain provisions covering the supply of goods and services traded through "Electronic Commerce" (E-commerce) in Cambodia. Under this Sub-Decree, non-resident taxpayers conducting E-commerce

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transactions, with no permanent establishment (PE) in Cambodia, shall be required to register with the GDT. This registration requirement is for VAT purposes only (Article 4 of Sub Decree No.65).

VAT on E-commerce transactions

As defined under this Sub Decree, "digital goods" refers to intangible goods purchased, supplied, and sent entirely online, while "digital service" refers to services performed online. "E-commerce" refers to the purchase, sale, rental, and exchange of goods or services, including commercial activity online.

The Sub Decree provides a detailed list of E-commerce transactions covered by this Sub Decree which includes, but is not limited to, the supply of software and other services related thereto, online shopping or auctions, advertising, website hosting, data retrieval, consumption of digital products and/or contents via download, real-time streaming, subscription, or other means.

This VAT Sub-Decree introduced the applicability of the "reverse charge" mechanism for B2B E-commerce transactions on imported services as mentioned above. Meanwhile, for B2C E-commerce transactions, the non-resident taxpayer shall declare and pay for the VAT on the transaction to the GDT.

Since the implementation of the VAT on E-commerce on 1 April 2022, a promising tax collection performance has been observed by the GDT from E-commerce transactions. The GDT has been quite active in flagging non-resident E-commerce suppliers who must obtain simplified VAT registration and comply with the rules on E-commerce transactions.

VAT Refund

VAT filing and payment to the GDT are due by the 25th day of the following month through the E-filing system. Monthly VAT declaration, as well as VAT refund, can be initiated online via the GDT's E-filing system. In practice, a VAT refund is a time-consuming process as the GDT needs to conduct an audit to ascertain the veracity of the claim. In the past years, it has been observed that the implementation of the online VAT refund system speeds up the process, especially for taxpayers with a "Gold Status" certificate of tax compliance.

As per recent Instruction No.018, dated 8 August 2023, the GDT has clarified that VAT refunds must be submitted within 3 or 6 months, or no more than 1 year to avoid accumulation and to speed up the VAT refund process. Conversely, no VAT refunds shall be granted for input VAT credits accumulated for more than 3 years.

Specific Tax (ST)

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

Examples of the levy of ST are:

Item	Rate
Domestic and international telephone services	3%
Domestic and international air tickets	10%
Entertainment services	10%
Cigarettes	20%
Beers	30%
Wine	35%
Energy drinks	15%
Milk-based, coffee-based, coconut water-based drinks	5%
Non-carbonated drinks	5%
Other non-alcoholic beverages	10%

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

The filing and payment of ST to the GDT is due by the 25th day of the following month through the E-Filing system.

Public Lighting Tax (PLT)

PLT is a tax levied on the sales of alcohol and cigarette products, both imported and domestically manufactured, at the first stage of the supply chain. Effective 1 January 2024, PLT rate shall increase from 3% to 5%. The basis for PLT calculation shall be determined by the subsequent Prakas of the GDT.

The filing and payment of PLT to the GDT is due by the 25th day of the following month through the E-Filing system.

Accommodation Tax (AT)

AT is a tax on the provision of accommodation services. AT is

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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. The filing and payment of AT to the GDT is due by the 25th day of the following month through the E-Filing system

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[1]	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 the 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 a Cambodian source income to a non-resident, shall withhold and pay as a tax in an amount equal to 14% of the amount payable. Payment from Cambodian source income may include the following:

Payment	Rate
Interest	14%
Dividend and "deemed dividends" based on certain transactions;	14%
Capital gains derived in Cambodia	14%
Management or technical services	14%
Income from services performed in Cambodia;	14%
Royalties from the use, or right to use intangible property	14%
Other various Cambodian source income(s) as provided under Article 33 of 2023 LoT and Article 7 of Prakas No.098	14%

The above-mentioned rates shall be reduced depending on the provisions of the relevant DTA, subject to compliance with certain conditions. Please refer to section 5 below for the DTA signatory countries.

The liability for WHT rests with the withholding agent (i.e., the Cambodian payor). The GDT has no recourse to recover withholding tax from the recipient of the income payment. The WHT is payable at either the date the payment is **made** or the date the expense is **recorded** in the books, whichever comes first.

The filing and payment of WHT to the GDT is due by the 25th day of the following month through the E-Filing system.

Deemed dividends

14% WHT shall apply on dividends paid to non-resident persons, both from actual payment of dividends and from "deemed dividend" transactions.

The concept of deeming dividends, irrespective of whether there is an actual dividend declaration, triggers the advance payment of the 14% WHT on future dividend declaration. The 14% WHT shall be computed based on the portion of the retained earnings (RE). Subsequently, when there is actual declaration/payment of dividends out of the RE that was already subjected to 14% WHT on "deemed dividends", such dividend transaction shall not anymore be subject to the 14% WHT.

The following transaction generally triggers an issue on "deemed dividend" based on the proportionate share of the RE balance:

- Reduction of capital or equity interest, including repatriation of

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 licence, downloadable software, and software bundled with computer hardware) is exempted from WHT, provided it is supported by a proper tax invoice.
Any payment of service of less than KHR50,000 (~US$12.50) is exempted from the 15% WHT on service.

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profits directly through the capital account and/or capital reserves

- Sale or transfer of shares owned by non-residents to another person

Advance Tax on Dividend Distribution (ATDD)[1]

"ATDD is essentially a prepayment of annual Tax on Income (ToI) imposed on an enterprise that distributes a dividend from income which was not yet subject to ToI. ATDD applicable to QIPs could be reduced or exempted, depending on certain conditions. Furthermore, the redistribution of dividend income received which was already subjected to ATDD will also be exempted from the ATDD. The ATDD can be used as a tax credit against the annual ToI at the year-end and any excess can be carried forward to the following year."

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 business, 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 depend upon the form of the business, as well as the type of business activity and the level of turnover.

Tax on Gambling Activities

The gross gaming revenue (GGR) realised by a commercial gaming business is considered as a taxable supply provided to its players/gamblers, which is subject to 10% output VAT and 1% PToI. The business shall also be subject to an annual 20% ToI/1% MT based on the rules and procedures for ToI calculation provided under existing tax regulations. Meanwhile, Prakas 1080, dated 30 December 2022, provides further guidance on how to compute the GGR for gambling activities. The same rules regarding local and foreign withholding tax, tax on salary and fringe benefits tax shall also apply to taxpayers in this industry.

1: The ATDD effectively replaces the previous Additional Income Tax on Dividend Distribution starting from the implementation of the 2020 LoFM, signed on 20 December 2019.

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Patent Tax

Large Taxpayers*: either	Medium Taxpayers:	Small Taxpayers:
KHR3,000,000 (~US$750); or **KHR5,000,000 (~US$1,250)** if annual turnover is over KHR10,000 million	**KHR1,200,000 (~US$300)**	**KHR400,000 (~US$100)**

** 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.*

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 were 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

A registration tax of 0.1 % applies to a transfer of shares. 0.1% registration tax also applies to 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 merger
- Dissolution of a company

Stamp Duty

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

This 4% tax is imposed on the market value at the time of the transfer, 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.

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.

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Tax Audit

Essentially, there are three kinds 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 the 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 ToI. This can be conducted on the current tax year (N) and one prior tax year (N-1).

A Comprehensive audit is conducted on all kinds of taxes and information necessary. This can be conducted within 3 tax years backwards (N-3). It can be extended to 5 tax years backwards (N-5) if there is evidence of tax evasion or there are losses or credits carried forward from longer than 3 tax years backwards. The tax year that is subject to comprehensive audit and any outstanding tax liability 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 with approval from the Minister of Economy and Finance.

The Director General of the GDT can order any department to conduct a special audit or investigation of the criminal offence on tax provisions on an enterprise if there is serious evidence showing the 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 (e.g., 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

In addition, a 1.5% interest for each month shall also apply for late payment.

The taxpayers will have thirty (30) days to protest or pay the tax reassessments to the GDT. Otherwise, the GDT will initiate the tax debt collection process by sending it to the tax liability office.

Taxpayers can settle the tax debt all at once or request to settle in instalments, provided they have agreements with the GDT for instalment settlements. Taxpayers can also settle just the portion of tax debt they agree with and protest the remaining portion with the GDT. Individual shareholder may also choose to settle only a portion of the tax debt based on their shares however this does not dissolve them of their responsibility for the company.

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, the CTA is not yet fully functional, which means that resolutions on tax disputes are currently being handled by the GDT, for further discussion and resolution. 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.

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Taxation of capital gains

Introduction

Prior to the introduction of the CGT regime, capital gains derived in Cambodia were not essentially taxed, except for capital gains derived by registered enterprises which are captured in the ToI returns submitted to the GDT. The implementation of the new CGT regime aims to close this tax leakage arising from capital gains transactions.

Capital gains:

Cambodia introduced a CGT regime through the issuance Prakas No.346, dated 1 April 2020. This CGT regulation imposes 20% CGT on the capital gains derived by resident physical persons and non-residents (both legal and physical), with the exemption applied to certain capital gains transaction. Based on the new LoT, the resident persons will be subject to CGT on the sale/transfer of capital both in Cambodia and abroad while non-resident persons are subject to only the sale/transfer of capital in Cambodia.

The term "capital" refers to immovable property, financial lease, investments assets (including shares, bonds, and other securities), goodwill, intellectual property and foreign currency. The capital gain is considered as realised at the time of:

1. sale or transfer of ownership of assets;

2. registration of the transfer of ownership with the competent authority; or

3. final verdict of a court on the transfer of property.

For immovable properties, taxpayers have the option to deduct costs amounting to 80% of the sale price or the actual cost. For other capital gains transactions, only the actual cost can be claimed as a deduction. A capital loss is not allowed for a refund or carry forward, and not allowed as a deduction/offset against other capital gain transactions.

The 2023 New LoT has adopted the scope and language regarding the imposition of CGT on capital gains derived by non-residents and resident physical persons. However, as of date, the GDT has yet to provide further guidelines on the implementation of the CGT regime by 1 January 2024.

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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.

The government also provides incentives to specific industries and/or activities to promote business in those sectors. Incentives were also provided by the government to certain industries heavily impacted by the COVID-19 pandemic, among others.

QIP-registered Enterprises

Certain investment incentives and/or guarantees are provided QIP registered enterprises which are duly registered with the CDC. Foreign and Cambodian investments can be eligible for QIP registration, except those investment activities included in the "negative list" or those investment proposals which have been already received investment incentives under the Law on Investment.

Investment activities registered as QIP are entitled to choose basic incentives under either of the following two options:

Option 1:

- Income tax exemption for 3 to 9 years, depending on the sector and investment activities, as well as the period of income. After the income tax exemption period has expired, the QIP is entitled to pay income tax at a progressive rate proportional to the total tax due as follows:
  - 25% for the first 2 years;
  - 50% for the next 2 years; and
  - 75% for the last 2 years;
- Prepayment tax exemption during the income tax exemption period;
- Minimum tax exemption provided that an independent audit report has been carried out;
- Export tax exemption, unless otherwise provided in other laws and regulations; or

Option 2:

- Deduction of capital expenditure through special depreciation as stated in the tax regulations in force;
- Eligibility of deducting up to 200% of specific expenses incurred for up to 9 years;
- Prepayment tax exemption for a specific period of time basedof time-based;
- Minimum tax exemption, provided that an independent audit report has been carried out;
- Export tax exemption, unless otherwise provided in other laws and regulations

In addition to the incentives stated above:

- Export QIP and supporting industry QIPs are entitled to customs duty, special tax and value-added tax exemption for the import of Construction Materials, Construction Equipment, Production Equipment, and Production Inputs.
- Domestically oriented QIPs are entitled to customs duty, special tax, and value-added tax exemption for the import of Construction Materials and Construction Equipment.

Note that QIPs located in special economic zones are entitled to the same incentives and protections.

Additional Incentives

In addition to the basic incentives (i.e., Option 1 or 2) provided to QIP-registered enterprises, investment activities registered as a QIP will receive additional incentives as follows:

- VAT exemption for locally made production inputs for the QIP activity;

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- 150% deduction on innovative and sustainable activities, such as:
  - Research and development (R&D), and innovation
  - Human resource development (e.g., vocational training for Cambodian workers)
  - Construction of accommodation, food courts, canteen, nurseries, and other facilities for workers
  - Upgrade of machinery to serve the production line
  - Provision of welfare for Cambodian workers

Special Incentives

Any specific sector and investment activities having high potential to contribute to Cambodia's national economic development may receive special incentives to be set out in the Law on Financial Management

The investment incentives and/or guarantees provided to a QIP-registered project may be transferred to another entity, during mergers or acquisitions. Prior application in writing to the relevant government ministries/offices is required in to transfer such incentives/guarantees.

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 licence.

Expansion of QIP

E The proposed Expansion of a QIP (EQIP) must be of an existing QIP. Expansions of existing QIPs will be entitled to income tax exemptions for the QIP projects based on the investment activity categories as follows:

- 9 years for category one (high technology)

- 6 years for category two (medium technology)

- 3 years for category three (low technology)

Cut Make Trim services

QIPs which provide Cut Make Trim (CMT) services on a contract basis for the purpose of export can receive the same incentive for ToI as if it were a QIP activity. These enterprises must comply with certain conditions such as notifying every CMT transaction within 30 days after entering a contract and attaching the contract; maintaining 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.

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

- Maintain proper bookkeeping, declare and pay ToI, fulfil other tax obligations, and

- Submit an independent audit report to the tax administration annually (by three (3) months of the following tax year).

Note that Garment and footwear manufacturing enterprises (i.e., QIP) also receive tax incentives in the form of a suspension of the monthly PToI until 2025.

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 15% WHT on royalty for rights to screen Khmer movies, produced domestically.

- Suspension of ToI for enterprises producing Khmer films.

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

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Education Sector

Eligible education institutions include private and public institutions that provide purely educational services from kindergarten through the university level and other technical and professional training institutions may avail of the following incentives until 2023:

Tax Type	Tax Incentive
MT, PToI	Suspension of 1% MT and 1% PToI
ToI	Free or discounted scholarship for students shall not be considered as taxable income
WHT	WHT exemption on payments for management, consultation, or other similar services relating to the student's study
VAT	Education services and other supplies of goods or services relating to education, including food and accommodation, shall be treated as non-taxable supplies.

The abovementioned incentives may be revoked if the taxpayer fails to comply with its monthly and/or annual tax compliance obligations, including the keeping of proper accounting records, submission of audited financial statements, and timely payment of tax.

Agricultural Enterprises

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

- Enterprises must fulfil the following conditions to obtain the tax incentives:

Tax Type	Tax Incentive
VAT	Supplies of goods or services to agriculture enterprises shall be considered VAT-state charged
WHT	15% WHT exemption on service payments to non-VAT registered local suppliers
MT	MT exemption, provided enterprises maintain proper accounting records

- Obtain a certificate of VAT as state-charge from the General Department of Taxation with a 1-year validity;
- Attach a list of suppliers who declare VAT, as specified, are required to make their monthly VAT return; and
- Maintain accounting records in accordance with laws and provisions in effect.

Small and medium enterprises (SMEs) in priority sectors

Qualified SMEs in the priority sectors (e.g., agriculture, food production, manufacturing of consumer goods for the tourism sector, innovative IT services, SMEs located in SME cluster) can avail of the following incentives:

Tax Type	Tax incentive	Period	Conditions
ToI	ToI Exemption	3-5 years	Qualified SMEs meeting any of the ff: • uses 60% raw material from local sources • employs 20% more staff • located in the "SME cluster"
	Additional deduction: • 200% of expenses on IT accounting systems • 200% of expenses on training • 150% of investments in machine or technical		Expenses should relate to improvements and/or modernising the SME's IT accounting systems, training for accounting or technical skills of employees, or purchase of equipment which is innovative to improve efficiency/productivity
MT, PToI	MT, PToI exemption		

To obtain these SME tax incentives, applicable taxpayers shall apply to the GDT by filing an application form either via an online system or downloaded from the GDT website, print out the completed form and required documents to submit to the tax administration.

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International tax

“

Cambodia’s entry into Double Tax and Trade Agreements and a key focus of Revenue authorities on related party transactions (TP) places a greater burden on taxpayers to ensure sound compliance while seeking to obtain effective strategic planning.“

Michael Gordon
Senior Advisor
Head of Integrated International Tax (IIT)

Double Tax Relief

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

Double Tax Avoidance (DTA) agreements

As at the date of this report, Cambodia has DTA agreements in effect with Singapore, China, Brunei, Thailand, Vietnam, the Hong Kong Special Autonomous Region, Indonesia and Malaysia.

Cambodia has also signed DTA agreements with South Korea which as at the date of this Publication are still awaiting ratification.

The GDT issued rules and procedures for the 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 a certificate of residency to gain benefits from 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 Organisation 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.

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Anti-avoidance Rules

Introduction

Article 194 of the 2023 LoT has introduced a "general anti-avoidance" provision in the Cambodian tax law by providing the GDT explicit power to reject or re-determine the real elements of any transactions in case the taxpayer is found to have submitted false information with the intention to reduce or eliminate the tax payable. It remains to be seen how this provision will be enforced in actual practice.

Transfer Pricing

Transfer Pricing (TP) – Cambodia Background

Since 1997, Article 18 of the LoT in Cambodia has allowed the General Department of Taxation (GDT) to make adjustments to income and expenses between Cambodian taxpayers and overseas related parties.

On 10 October 2017, the Ministry of Economy and Finance indicated that related party transactions would be subject to greater scrutiny in Cambodia, by issuing Prakas 986, which became effective immediately.

Prakas 986 provides rules and guidance on acceptable TP methodologies and the requirement for formal supporting documentation, thus providing additional clarity and transparency.

For Prakas 986 to apply, transactions need to occur between a Cambodian taxpayer and a related party. A related party is generally defined in Article 4 of Prakas 986 as one of the following:

- Any member of the taxpayer's immediate family;
- An entity which directly or indirectly controls 20% of the equity interest in another entity either through entitlement to dividends or equivalent voting rights;
- Any two entities which are under common control, whereby an individual has 20% of the entitlement to dividends or equivalent voting rights.

In accordance with Prakas No. 986, there are five (5) Transfer Pricing methods allowable:

1. Comparable Uncontrolled Price (CUP),
2. Resale Price Method (RPM),
3. Cost Plus Method (CPM),
4. Transactional Net Margin Method (TNMM), and
5. Profit Split Method (PSM).

Prakas 986 – The Intention

The purpose of TP rules is to ensure related party transactions are undertaken at an amount and in a manner that corresponds with what non-related parties would pay for the goods or services and how the transaction would be conducted (i.e., an "arms-length" transaction).

This further aligns Cambodia with international fiscal policy and the Organisation for Economic Co-operation and Development ("OECD") guidance on the conduct of related party transactions. However, Cambodia is not an OECD member and therefore is not bound by the OECD Guidelines.

The overall aim is to prevent related parties from shifting profits to minimise tax exposure.

The comparison to a non-related party transaction is however not an exact or precise exercise, and, accordingly, a detailed review and analysis of each transaction must be undertaken.

Prakas 986 – TP Compliance

- Prakas 986 outlines new compliance requirements generally consisting of:
    a. The retention of annual documentation, which the Cambodian taxpayer must submit to the GDT upon request. This documentation should detail related party transactions and the TP methodologies used to justify the value of the transaction;
    b. An annual reporting requirement, whereby Cambodian taxpayers who transact with related parties must state if they have TP documentation completed and declare related party transactions for the fiscal year.

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Prakas 986 – Timeline & Penalties for non-compliance

- Prakas 986 is effective from the signing date of 10 October 2017, however, there is no official confirmation on the first fiscal year it should be applied. It is highly likely that the GDT will only require TP documentation for the 2018 year and onwards.
- Consequences for lack of compliance may be as follows:

  a. Withdrawal of taxpayer's certificate of tax compliance;

  b. GDT TP adjustment, resulting in additional tax;

  c. Tax penalties, ranging from 10% to 40% of any additional tax arising from any adjustment made, plus an interest charge of 1.5% (per month).;

  d. Criminal charges (imprisonment or further monetary punishment);

  e. High risk of unilateral assessment/ deemed assessment.

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". Based on the new LoT, the term PE was also expanded to include any person who has or habitually exercises the authority to sign the contract in the name of the non-resident person or fulfils the main role in facilitating the conclusion of a contract.

On the other hand, the PE definition under Prakas 098 covering non-resident online businesses providing goods or services in Cambodia was excluded from the PE definition under the 2023 LoT.

Cambodia's PE definition adopts the definition laid out under the international tax laws, practices, and principles on PE under the OECD and the UN Model Convention. However, Cambodia's PE definition does not include an exemption on "preparatory and auxiliary activities" under the OECD and UNMC. This leaves the GDT a wider scope to assess PE issues on foreign companies doing business in Cambodia, based on the PE criteria. Under the Tax Law, the GDT has the discretion to determine if, in its opinion, a PE exists.

Thin Capitalisation

There is no specific thin capitalisation 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.

Country-by-Country Reporting (CbCR)

There is no CbCR requirement for multinational enterprises in Cambodia.

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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.

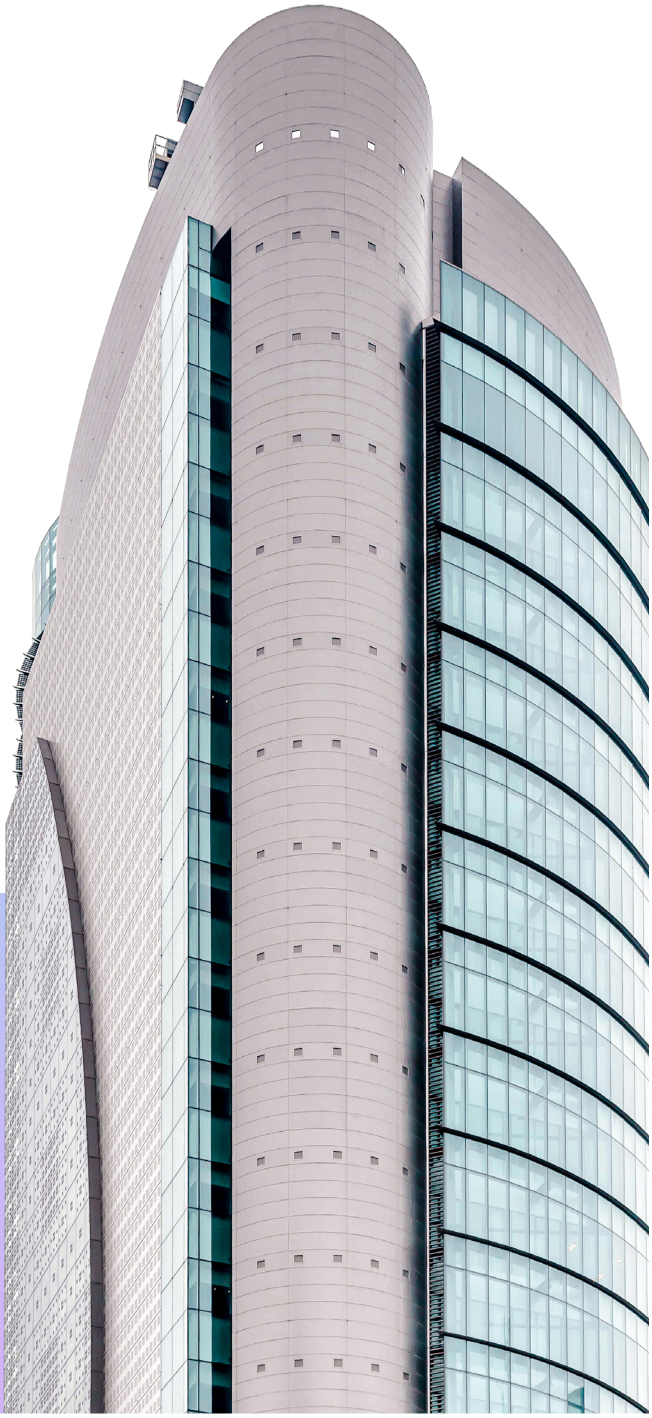
There are currently no restrictions on the repatriation of profits or capital from Cambodia, and the law guarantees the rights of foreign investors to remit foreign currencies abroad for:

- 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 the 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 authorised 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.



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We have an obligation to support our community – while helping businesses of all sizes to drive sustainable and measurable change. The demand for robust disclosures in Environmental, Social and Governance (ESG) is growing. One of our professional obligations is to work with our clients to deliver ESG services that serve the public interest. This is clearly aligned with our purpose which is to inspire confidence and empower change.

Nge Huy

Senior Partner

Head of Audit

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Audit Services

1	**Financial Statement Audit**
2	**Regulatory Audit**
3	**Accounting Advisory Services**
4	**Audit Related Services**
5	**International Financial Reporting Standards Audit Data & Analytics**
6	**Audit Data & Analytics**

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 marketplace, credible financial statement audits reinforce investor confidence. Within organisations, they add to the 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 the need for independent, objective assurance of financial information, transactions, and processes. Independent assurance and verification add credibility to an organisation's disclosures and reporting, particularly when it is not a statutory requirement.

Audit Data and Analytics unlock the data in your business and deliver 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. The enhanced business insights delivered to you by our audit team help you see your business from a fresh perspective and stay ahead of the competition.

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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.

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 absolute requirements to gain access to the international capital market. KPMG has been assisting clients both in Cambodia and internationally to interpret and implement these standards.

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Tax Services

1	**Corporate Income Tax and International Corporate Tax**
2	**Tax Audit Assistance**
3	**Tax Retainer**
4	**Tax Health Check Review**
5	**Tax Compliance Training**
6	**Indirect Taxes**
7	**Global Tax Outsourcing**
8	**Transfer Pricing and Supply Chain Management**
9	**Merger & Acquisitions**

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 organisations 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.

With our vast experience in **tax audits**, KPMG not only provides your businesses with practical advice on any tax audit issues but our team is also ready to support you in liaising with the tax auditors on various occasions, including but not limited to preparing administrative letters, attending the tax audit meetings, and lodging all the relevant documents with the tax authorities. Our team of specialists has extensive experience in assisting clients to resolve tax disputes whilst maintaining an effective working relationship with tax authorities on your behalf.

KPMG's **tax retainer services** are also available for businesses that need routine advice on technical, regulatory compliance, and risk management strategy. With our years of experience and our extensive resources of information, we are your integral partner, aiming to add more value to your businesses as we share both international and national best practices.

Our **tax health check review services** provide high-level and detailed tax review to undertake a tax diagnostic review of your business's current tax compliance position to identify any risks or exposures that currently exist. The review can also be used as a planning tool to identify high-risk areas and develop a strategy to minimise unnecessary tax exposures.

Our professional teams provide **tax compliance** training to guide your inhouse team to properly prepare and file all types of compliance monthly tax returns.

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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.

KPMG's Global Transfer Pricing Services (GTPS) network comprises over 1,500 professionals from KPMG member firms around the world who work together to provide local knowledge, experience, and global analysis to assist multinational companies in addressing their Transfer Pricing responsibilities.

KPMG's GTPS practice includes economists, tax practitioners, and financial analysts. We use knowledge of local rules and how they interact to help member firm clients source tax-efficient pricing.

KPMG's GTPS in Cambodia can assist you with each step of your Transfer Pricing strategy. Our Transfer Pricing advisory services include:

- Transfer Pricing planning
- Transfer Pricing compliance support
- Transfer Pricing controversy and dispute resolution

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.

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Corporate Services

1	**Market Entry and Business Set-up**
2	**Corporate compliance**
3	**Trade & Customs**
4	**Intellectual Property**
5	**Employment and labour**
6	**Mergers and acquisitions**
7	**Restructuring and liquidation**
8	**Accounting system setup**
9	**Management accounts outsourcing**
10	**Financial audit assistance**
11	**Payroll service**
12	**Accounting Advisory**

All registered entities operating in Cambodia are subject to corporate and accounting rules and regulations which require enterprises to apply for and maintain a range of business and labour registrations and licences and to prepare accounting records under a specified accounting framework.

Failure to obtain applicable business and labour registrations and licences and to prepare accounting records in accordance with the relevant accounting regulations can lead to a number of problems for enterprises.

Our **Market Entry and Business Set-up** service provides many opportunities for new investors but also opens the door to unknown risks. Using an integrated approach, our market entry services team is able to provide local knowledge regarding regulatory, financial, taxation and commercial issues to help identify opportunities and manage risk.

Our **Corporate compliance team** can assist you to comply with the regulatory requirements for doing your business in Cambodia, including the notifiable changes of the business' particulars, licensing and renewal and annual filings with the authorities.

Our **Trade and Customs professionals** advise clients on duties, planning and compliance-related obligations when importing and exporting goods. They are also able to directly support clients during a Post Clearance Audit (PCA) by providing advice, helping clients document their position using available information, and attending meetings together with the client and the General Department of Customs and Excise.

Intellectual Property services can provide enterprises in dealing with intellectual property related advisory from both regulatory and practical perspectives, mark registration, renewal as well as appeal process against refusal, and registration of exclusive rights agreements. KPMG Cambodia has a dedicated and specialised team of professionals who are licensed and recognised by the authorities to perform the services.

Our **Employment and labour** compliance team can assist you in navigating Cambodia's complex labour law regime to deal with any challenges and drive your business forward.

We advise on all employment issues arising in the lifecycle of a company, from initially recruiting your workforce to establishing key human resources policies, dealing with labour related matters, terminations, and settling final obligations to your employees in the context of a winding up.

Restructuring and liquidation, working alongside KPMG's tax, advisory and legal teams in Cambodia and beyond, our clients receive integrated advice that takes account of the full spectrum of tax, regulatory, operational, and legal implications.

Mergers and Acquisitions (M&A), KPMG One Due

Diligence M&A team adds value at each phase of a transaction, protecting your strategic interests whether

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you are selling or buying, planning a merger or about to embark on a business alliance. Applying an integrated approach, we leverage the experience and expertise of KPMG's network around the world. KPMG Corporate Services team works seamlessly with KPMG's advisory and tax teams.

Cambodia is experiencing an ever-increasing demand for proper maintenance 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 their **Accounting System Setup** and configuration, follows through with **Management Accounts Outsourcing** and provides training to our client's accounting staff.

Our team assists clients with basic reporting such as balance sheets & profit & loss financial statements up to divisional or project analysis, budget variance reports and specialised investor/ donor reporting. We can also provide a **Financial Audit Assistance** service to act as the first port of call to the auditor, taking the pressure off you and enabling you to focus on running your business.

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, payslip 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 businesses. 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.

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Advisory Services

1	Merger & Acquisition (M&A)
2	Transaction Services
3	Restructuring Services
4	Strategies

Business today is under more pressure than ever to deliver better, lasting results for stakeholders. At KPMG, we think like an investor, looking at how opportunities to buy, sell, partner, fund or fix a company can add and preserve value. We provide services that can help address a client's strategic needs in terms of growth (creating value), governance (managing value), and performance (enhancing value).

Merger & Acquisition (M&A)

We offer integrated services across the lifecycle of an acquisition.

Buy-side. The path to an acquisition is marked by many challenges. As an experienced, independent advisor, KPMG Deal Advisory helps guide clients through each stage of a deal, enhancing value all along the way. We help clients identify risks and rewards through the entire acquisition lifecycle, and make sure a deal fits clients' broader strategic goals.

Sell-side. Getting the best value from a sale means taking an objective look at the client's business and assessing the agendas of prospective buyers. KPMG Deal Advisory supports clients through each phase of a sale, from identifying buyers to enhancing the value of your retained business.

Transaction Services

We provide assistance to clients on mergers and acquisitions, particularly with respect to financial and commercial due diligence, business valuation, analysis of 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.

Restructuring Services

Managing a financial restructuring is one of the most challenging situations for a business leader. As

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an objective third-party, KPMG Deal Advisory can help clients with a range of assessment and planning needs, from determining the urgency of liquidity issues to finding appropriate restructuring options and creating a restructuring plan. 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.

Strategies

Strategies – Funding. Access to financing is essential to realising a strategic plan, optimising capital structure for growth, and driving value for stakeholders. KPMG Deal Advisory can help clients implement the right financing strategies and access the right capital. To optimise our client's business's capital structure and access funding, we support them through each stage of the process, from initial contact to closing with the lender.

Strategies – Partnership. Business partnerships are an effective way to pursue a range of strategic objectives. But they need constant care and attention. KPMG Deal Advisory helps clients decide what type of partnership makes the most sense and works with them to manage it profitably.

James Roberts
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Risk Consulting Services

1	**Financial Risk Management**
2	**Governance Risk & Compliance Services (GRCS)**
3	**Forensic**

As businesses strive for sustainable long-term growth, having a sound strategic plan in place is key to anticipate and mitigate potential threats in the ever-complex risk landscape.

KPMG understands the growing concerns about both financial and non-financial risks globally. We are here to help multi-level industries ranging from banks and insurance companies to other corporate and public organisations with key strategic decisions: reevaluate, reimagine, and fortify approaches to risk management.

In Cambodia, organisation from various industries such as banking and insurance as well as other large corporate and small-medium enterprises faces similar strategic and business pressures to achieve better risk management at a desired cost level.

Bankers, Insurers and Capital Market practitioners face differing views of relevant regulations from policymakers, i.e., National Bank of Cambodia ("NBC"), Cambodia Financial Intelligence Unit ("CAFIU") and the of Ministry of Economic and Finance ("MEF"). Leveraging our multidisciplinary international and local-based experts, we are at the forefront of the ever-changing regulatory requirements and expectations which take time to track and counter firms' desire for global policies.

Financial Risk Management ("FRM") have probably never been more acute. Capital reserves, credit portfolios, investment policies and capital and debt profiles all demand constant scrutiny to adequately manage and mitigate risk. The dynamic enrichment of credit, market and operational risk-related Prakas all focuses on tracking the Basel Framework's trifecta, capital adequacy requirements, supervisory review and market discipline.

The stakes in managing model risk have never been higher. Financial Institution's reliance on provisioning and credit scoring models have proved to improve business needs, including financial reporting, pricing and strategic planning. In addition, the increase of big data and advanced analytics needs to drive the exploration of more sophisticated models, such as customer relationship management or anti-money laundering ("AML") and fraud detection.

The representative of proper governance and internal control of an organisation is defined within its' three lines of defence. Our **Governance, Risk and Compliance Services ("GRCS")** professionals help sharpen organisations' abilities to successfully manage risk and further contextualise value creation. We assist our clients in developing proper frameworks and standard operating procedures as well as lending a

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helping hand to Internal Audit departments in executing the annual audit plan via outsourcing or co-sourcing arrangements.

Cambodia's effort in strengthening measures and exiting the international AML watchdog's 'grey' list is a work in progress and every organisation plays a crucial role. Furthermore, organisations face constant struggle to detect and manage AML and fraud risk. Our **Forensic ("FOR") services** can assist in formulating an internal monitoring strategy and easing reporting pressure from external parties.

Our overall Risk Consulting services includes:

FRM

- Regulatory Capital Risk-Weighted Assets Advisory
- Internal Rating Based (IRB) Implementation under Basel II/III
- Asset and Liability (ALM) & Fund Transfer Pricing (FTP)
- Liquidity Risk Management
- Operational Risk Framework
- ICAAP Implementation and Independent Review
- CIFRS 9 Expected Credit Loss Implementation
- Effective Interest Rate (EIR) Implementation
- Credit Scorecard Implementation
- Revenue Enhancement (RAROC. RAPM)
- Digitisation
- Data Warehousing & Data Governance

GRCS

- Corporate Risk Governance Framework
- Standard Operating Procedure (SOP) Standardisation & Development
- Internal Audit Capabilities Enhancement
- Internal Audit Services – Outsourcing/ Co-sourcing
- Enterprise Risk Management (ERM)
- Compliance Function

FOR

- Anti-Money Laundering (AML)
- Customer Due Diligence (CDD) / Know Your Customer (KYC)
- Sanctions Screening
- Transaction Monitoring (TM)
- Anti-Fraud / Fraud Risk Management
- Third Party Risk Management
- Anti-Bribery and Corruption (ABAC)

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Glossary

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

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

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