KPMG

Technical Update

July 2022

Additional Guidelines for Implementation of VAT on Tangible Fixed Assets (FA)

(Instruction no. 12093. GDT dated 7 June 2022)

Instruction no. 12093, dated 7 June 2022, was issued by the General Department of Taxation (GDT) to supplement the existing guidelines provided under Instruction no. 15301, dated 22 June 2020 regarding the VAT treatment of FAs ceased to be used in the business.

Based on the Instruction no. 12093, “tangible fixed asset ceased to be used” refers to all tangible assets that an enterprise has, but have not been used for a period of more than one (1) year in the conduct of the business.

Below is a summary of the key VAT implications on FAs ceased to be used in the business:

Transaction	VAT implication
FAs ceased to be used and **sold** (whether in a usable state or as scraps)	• Subject to 10% VAT, regardless of whether it had received input VAT credit or not
FAs ceased to be used and **destroyed or damaged** or has no value for sale	• Not subject to 10% VAT, but the taxpayer must have verifiable evidence to support the state of the damaged FA. • For FAs with residual accounting value of at least KHR200K (approx. US$50), the taxpayer must notify the GDT at least 10 working days in advance prior to destruction so that the GDT can send tax officials to witness/inspect the FA destruction.

FAs with input tax credit, ceased to be used and **given as charitable contribution**	• Shall not be deemed as sold, and not subject to VAT and/or Tax on Income (ToI), provided the following criteria are met:
	  ◦ For Class 2 FA: (1.) It has been used for over 3 years, and (2.) the residual accounting book value for each FA is under KHR1M (approx. US$250).
	  ◦ For Class 3 and 4 FA: (1.) It has been used for over 5 years, and (2.) the residual accounting book value for each FA is under KHR2M (approx. US$500).

Newly constructed/ purchased **Class 1 FA** with input tax credit, **not yet used**	• Shall not be deemed as sold, and not subject to VAT
Class 1 FA (with input tax credit) **used**, and then **later ceased to be used for over 1 year**	• The taxpayer shall notify the GDT and provide appropriate reason for such cessation in order for such FA to be exempted from the 10% VAT

Our comments

The new Instruction 12093 clarifies the status for VAT purposes of “ceased to be used” FAs which are kept and are not used in the business for over 1 year. It also provides specific guidance on the proper VAT implications of FAs, depending on the particular circumstances, and provides criteria for VAT exemptions. Based on the Instruction, the documentation process is vital to mitigate the risk of a “deemed sale” issue. This includes proper bookkeeping, maintaining sufficient supporting documents, and notifying the GDT, as necessary.

As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.

Contact us

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