



# Doing business in Lao PDR

Tax & Legal

KPMG in Laos

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## Regulatory/Legal

### Forms of business entities

A person, Lao or foreigner, may engage in business in the form of a sole proprietorship, limited liability company (including foreign-owned company and joint venture company), partnership, branch of a foreign corporation, a representative office, or a business cooperation by contract.

The most common form of entity used in Lao PDR is the limited liability company. Under Lao law, a branch office can be established to carry on only specific business (e.g. commercial banks, airlines, etc.), while a representative office cannot generate any income in Lao PDR.

Certain businesses require approvals or licenses from relevant authorities.

### Foreign ownership restriction

A foreigner is restricted from carrying on certain types of business activities in Lao PDR such as short-term accommodation activities of less than three stars, wholesale and retail business with registered capital not exceeding LAK4 billion.

### Investment incentives

The Law on Investment Promotion grants tax incentives to foreign and Lao investors who are engaged in promoted business activities and/or whose business is located in the promoted zone as designated by law.

A concession agreement with Lao Government also grants tax incentives to investors based on negotiation.

Tax incentives include exemption of corporate income tax on the net profit and dividends derived from the relevant project, and/or exemption/reduction of import duties and/or value added tax.

### Foreign exchange controls

Foreign exchange transactions are generally permissible to be conducted through commercial banks.

The transfer of funds to foreign countries is permissible provided it is compliant with regulations issued by the Bank of Lao PDR. The foreign currency may be used for certain objectives, including:

- paying for imported goods, paying for import export related services
- repaying foreign debts in accordance with a loan agreement that has been approved by the Bank of Lao PDR, and
- repatriating or transferring profits, dividends, capital, interest, or salaries by foreign investors to a third country.

### Foreign ownership of real estate

Foreigners are prohibited from owning freehold land in Lao PDR. Long-term lease is allowed.

### Employment

The current minimum wage rate is LAK1.1 million (approx. USD119) per month.

All non-Lao nationals who work in Lao PDR are required to have work permits. Before applying for work permits, a certain type of visa must be obtained.

### **Accounting period/ audited financial statements**

The accounting period for local and foreign enterprises operating their businesses in Lao PDR (including companies, branches, and representative offices) is the calendar period starting from 1 January to 31 December.

Foreign companies and other entities as stated under the Law on Independent Audit (e.g. commercial banks, insurance companies, listed companies, etc.) are required to be audited by an independent audit firm.

## **Tax**

### **Profit Tax (i.e. corporate income tax)**

Standard rate is 20%.

The payment of profit tax shall be carried out two times per year as follows:

- First time shall be by 20 July of the year;
- Second time shall be by 20 January of the following year.

The profit tax payments shall be based on the previous year's profit tax payments, or self estimated amount or actual profit incurred during the period.

However, if the amount of profit tax paid during the year is less than the actual amount due after closing the accounting books, the difference will be added to the year-end assessment.

### **Capital gains tax**

There is no separate tax on capital gains. However, the sale of shares (except sale of shares listed on the Lao PDR securities exchange) is subject to Income Tax at the rate 2% on total selling price, regardless of whether a seller will have a gain or loss from this transaction.

### **Value Added Tax ("VAT")**

Current rates include 10% standard rate, exempt and 0% for certain goods or services. Monthly VAT return must be filed within 20 days of the following month.

Any excess input tax may be claimed as a refund or used as a credit towards the subsequent months VAT liabilities for up to three months.

### **Deemed Profit Tax ("DPT")**

Certain payments made to a company overseas are subject to DPT at the rate ranging from 1.4%-3% as specified under the law.

Service fees paid to a company overseas are subject to DPT at the rate of 3% and 10% withholding VAT.

### **Withholding tax**

Payers of assessable income who are residents of Lao PDR are liable to deduct tax at source from certain domestic and cross-border payments, including interest, dividends, royalties, rent of property, etc.

The payer is responsible for deducting the tax, remitting the tax and filing a return within 15 working days after the payment has been made.

### **Other tax compliance**

Stamp duty is payable on a number of documents and transactions as described in the Decree on Fee and Charge, including leases, security transfer documents, loan agreements and hire of work contracts.

Customs duty is levied on imports and certain exports. This is generally payable prior to the goods being released by Customs.

### **Personal income tax**

Progressive rates from 0%-25%.

### **Transfer pricing**

There are no transfer pricing regulations in Lao PDR.



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