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KPMG Tax Talks: Garment & QIPs – Navigating Tax Incentives, Compliance and Growth Opportunities



21 August 2026

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Agenda

01 Opening Remark

02 Tax Compliance and Incentives in the Garment Industry and Qualified Investment Projects (QIPs)

03 Cambodia Transfer Pricing Insights for Garment Manufacturers

04 Q&A

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Opening Remarks



So Dary

Partner
Head of Corporate Services
KPMG in Cambodia

Speakers



Chhoun Piseth

Associate Director
Tax & Corporate Services
KPMG in Cambodia



Tea Vuth Huykoeng

Associate Director
Global Transfer Pricing Services
KPMG in Cambodia

KPMG ONDEMAND

Speaker



Chhoun Piseth

Associate Director

Tax & Corporate Services

KPMG in Cambodia

KPMG ONDEMAND

Tax Compliance and Incentives in the Garment Industry and Qualified Investment Projects (QIPs)

02

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Objectives

By the end of this webinar, participants will understand:

- QIP incentives under the new Law on Investment
- Key tax incentives available to garment manufacturers
- Monthly and annual tax compliance requirements
- Common tax audit issues identified by the GDT
- Practical measures to mitigate tax risks

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Content

01 Tax compliance framework

02 QIP tax incentives overview

03 Garment-specific incentives

04 Common audit and VAT refund challenges

Tax Compliance Framework Overview

TAXES IN SCOPE

MONTHLY

- Value Added Tax (VAT)
- VAT Reverse Charge (VRC)
- Prepayment of ToI (PToI)
- Withholding Tax (WHT)
- Tax on Salary (ToS)
- Fringe Benefit Tax (FBT)

ANNUAL

- Tax on Income (ToI) / Minimum Tax
- Patent Tax

MONTHLY TAX DEADLINE

25th of the following taxable month

QIPs must lodge and pay monthly tax through the **e-Filing system**.

FILING FLOW

01	02	03	04
Prepare	Input	Submit	Pay

REQUIRED SCHEDULES FOR MONTHLY TAX

01 Sales schedule

02 Purchase schedule

03 WHT schedule

04 ToS & FBT schedule

05 VRC schedule

COMPLIANCE NOTES

01 Purchase from VAT-registered suppliers.

02 Obtain detail information from non-VAT supplier/customer.

03 Collect invoices and customs forms on time.

04 Prepare accrual vouchers for accrued income and expense.

05 Submit information required under GDT instruction on time.

06 Obtain GDT approvals under GDT instruction on time.

07 Align completion of audited FS with ToI timelines.

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QIP Income Tax Holiday Overview

Group 1

Tax Holiday

9 years

Tax on Income exemption

Group 2

Tax Holiday

6 years

Tax on Income exemption

Group 3

Tax Holiday

3 years

Tax on Income exemption

Key point: The holiday starts in the first year of operational income—not necessarily the CDC approval year.

Reference: Article 14, Sub-Decree No. 139

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When Does the Tax Holiday Start?

ILLUSTRATIVE TIMELINE

2022
CDC approval

2022–2023
Preparation stage

2024
First sales revenue

TAX HOLIDAY BEGINS **2024**

First year of operational income

COMMON ISSUE

Does income during construction trigger the QIP holiday?

Subsidiary income (e.g., rental) or other income (e.g., interest)

Generally, no. It does not trigger the holiday period.

IS THIS INCOME SUBJECT TO TOI DURING THE HOLIDAY?

Below KHR 250m	KHR 250m+
≈ US$62.5K annual income	Annual income
EXEMPT	NOT EXEMPT

References: Article 14, Sub-Decree No. 139; Instruction No. 35495

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Tax Relief After Expiry of Tax Holiday

Years 1–2

25%

of normal TOI

Years 3–4

50%

of normal TOI

Years 5–6

75%

of normal TOI

Example

If a normal TOI fo r Y1 is $100K, TOI payable for Y1 is :

$25K

($100K × 25%)

Key point: PTOI uses the same proportionate rate during the relief period.

Reference: Article 14, Sub-Decree No. 139

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Additional Benefits During the Tax Holiday

01

PTol

EXEMPT

PTol Exemption

During the tax holiday period

02

Minimum Tax

EXEMPT

Available when

Audited financial statements and proper accounting records are maintained.

03

ATDD

EXEMPT

Advance Tax on Dividend Treatment

Dividends distributed during the tax holiday period are exempt.

References: Article 14(1), Sub-Decree No. 139; Instruction No. 13804 (8 Apr 2024); Instruction No. 30408 (14 Dec 2022)

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Garment-Specific Incentives Until 2028

Extended PToI Exemption

For QIPs in garment and related sectors—including textiles, footwear, bags, hats, labels, gloves and socks—PToI exemption remains available after the ToI holiday expires.

Available through the end of 2028

Reference: Prakas No. 1123 (26 December 2025)

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Customs Duty & Import VAT Incentives for QIPs

Eligible Imports — No Customs Duties or VAT

01 Construction materials

02 Equipment and production machinery

03 Manufacturing inputs and raw materials

Key Benefits

01 Reduced initial investment cost

02 Improved cash flow

Reference: Article 14, Sub-Decree No. 139

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VAT 0% on Local Production Inputs

Incentive

0% VAT

QIPs may access 0% VAT on locally purchased production inputs.

Eligible Local Production Inputs

01	Raw Materials	Unprocessed or slightly processed materials used in production to be turned into finished products.
02	Auxiliary Materials	Materials used to support production (e.g., cleaning chemicals, packaging, etc.)

Key Requirement Prior GDT approval is generally required.

References: Article 75, Law on Taxation

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Additional 150% Tax Deductions

Enhanced Deduction

150%

QIPs may claim qualifying expenses at 150%.

Enhanced deductions reduce taxable income.

Qualifying Expenditures

01 R&D and innovation
Research and development activities

02 Skills development
Vocational training for Cambodian workers and employees

03 Worker facilities
Accommodation, canteens, food courts, nurseries and related amenities

04 Production modernization
Machinery and equipment that improve production efficiency

05 Employee welfare
Transportation, accommodation and supporting facilities

06 Waste treatment
Solid, hazardous and liquid waste, plus air-emissions treatment systems

References: Article 15(2), Sub-Decree No. 139; Article 11(6), Law on Taxation

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Expansion QIP Incentives (EQIPs)

Expansion Scope

Eligible expansion activities

01 Increased production capacity

02 New product lines

03 New technology or process improvements

ToI Exemption Period

Based on the investment activity category in Annex 2

9 YEARS	6 YEARS	3 YEARS
GROUP 1	GROUP 2	GROUP 3

ToI and PToI exemptions apply proportionately to expansion investment capital ÷ total investment capital.

Administration

CDC approval

GDT confirmation of the applicable tax treatment.

IMPORTANT

No tax relief will be granted.

References: Article 16 and Annex 2, Sub-Decree No. 139; Prakas No. 313

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CMT vs FOB Operations

Key Message

CMT ≈ FOB

A garment QIP operating under Cut-Make-Trim (CMT) may enjoy incentives similar to FOB manufacturers, subject to compliance.

Similar incentives — when compliance is met

Compliance Requirements

01 Notify GDT within 30 days of signing CMT contracts

02 Maintain accurate inventory and accounting records

03 Submit annual inventory reports as required by GDT

Reference: Prakas No. 741 (3 August 2018)

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VAT 0% for Supporting Industries & Contractors



Reference: Prakas No. 311 (19 March 2014)

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Tax Incentives for Agricultural Enterprises

INCENTIVE WINDOW

2027

Exemption through

Agricultural enterprises receive targeted tax relief, subject to compliance.

KEY INCENTIVES

01 Minimum Tax exemption

02 PToI exemption

03 WHT exemption on services

04 State Burden VAT treatment on purchases

COVERED ACTIVITIES

Rice, corn, soybean, cassava, pepper, cashew, rubber, mango, banana, longan, animal husbandry, aquaculture and palm oil for animal feed.

Compliance

- Annual VAT State Burden Certificate
- Proper accounting records
- Supplier information submitted to GDT

Reference: Prakas No. 962 (19 November 2025)

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Tax Incentives for the Education Sector

RELIEF PERIOD

END-2028

Eligible education institutions are generally exempt from most taxes, subject to compliance.

TAXES THAT STILL APPLY

01 Patent Tax

02 Withholding Tax on rental

03 Tax on Salary

04 Property Tax

SUBJECT TO COMPLIANCE

01 **Register**
Register with the GDT

02 **File on time**
Declare monthly and annual tax on time

03 **Maintain records**
Keep proper accounting records

04 **Submit AFS**
Required if annual turnover exceeds KHR 4,000 million

COVERED ACTIVITIES

Education services from kindergarten through higher education
- Technical and professional training

Reference: Notification No. 172 (20 March 2024)

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Tax Incentives for Tourism Activities

Monthly Taxes

MOST

monthly taxes exempt

Exceptions: VAT and Accommodation Tax.

Tax on Income

ToI

exemption during the incentive period.

Tax Audit

NONE

No tax audit during the specified incentive period.

Relief applies during the incentive period

COVERED SECTORS

Hotels and guesthouses • Restaurants • Tourism agencies and operators

Special incentive example: Siem Reap 2026. Reference: Prakas No. 122 (30 January 2026)

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Common VAT Refund Challenge

Common GDT Findings

01 Invoice mismatches: number, date or supplier VAT declaration

02 Outstanding tax reassessments

Key Risk

DELAYED

or rejected

VAT refund claims

Mitigation

01 Request refunds every 6–12 months

02 Maintain and declare accurate tax invoices

03 Engage GDT proactively on pending audits

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Common Tax Audit Issues (Cont.)

Tax on Income & VAT

01 Incorrect tax holiday count or reassessment impact

02 Tax-loss carry-forward revised after reassessment

03 TP adjustments for related-party transactions

04 Monthly/ToI/customs discrepancies in income or raw materials

05 Inventory write-offs without GDT/customs notice or proper stock reports

06 Fixed-asset disposal and listing vs FS/ToI discrepancies

WHT

01 Management and technical services with related parties

02 Director fees

03 Accrued Expenses

Salary & Fringe Benefits

01 Expatriate salary and benefits benchmarked against similar industries

02 Dormitory, meals and travel provided to expatriate staff

03 Management use of company vehicles

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Speaker



Tea Vuth Huykoeng

Associate Director

Global Transfer Pricing Services

KPMG in Cambodia

KPMG ONDEMAND

Cambodia Transfer Pricing Insights for Garment Manufacturers

03



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Content

01 Overview of Manufacturing

02 Common Related Party Transactions

03 Common Areas and Key Considerations

04 Compliance Requirements and Documentation



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01. Overview of Manufacturing



Manufacturing Enterprise Classifications

Increasing Ownership, Functional Control and Risk →

01

Toll Manufacturer

Processing service

Operating Scope

Provides manufacturing and processing services only.

Asset Ownership

Does not own raw materials or finished goods.

Risk / Return

Minimal operating risk; earns a manufacturing fee.

02

Contract Manufacturer

Principal-led production

Operating Scope

Manufactures for a related-party principal and typically sells all output to it.

Asset Ownership

Generally, purchases or owns raw materials and WIP during production.

Risk / Return

Limited inventory and production risk.

03

Full-fledged Manufacturer

Entrepreneurial manufacturer

Operating Scope

Runs procurement, production, sales and marketing end to end.

Asset Ownership

Owns materials, inventory and often intangibles.

Risk / Return

Significant business and market risk; retains residual profit or loss.

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02. Common Related Party Transactions

Common Related Party Transactions

1. Purchase Transaction:

- Raw materials
- PPE / machinery / equipment
- Services / utilities
- Other purchases

2. Sale Transaction:

- Finished goods
- Spare parts / components
- CMT Services (Processing fee)
- Other sales

3. Intercompany Loan Transaction:

- Short-term loans
- Long-term loans
- Other financing arrangements

4. Intra-Group Services Transaction:

- Administrative services
- Technical / R&D services (royalties)
- Marketing & distribution services

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03. Common Areas and Key Considerations

Common Areas and Key Considerations for the Company

Common Areas	Key Considerations
Functional Analysis	Properly characterizing manufacturer type.
Benchmarking	Lack of suitable comparables Volatility of data.
Customs vs TP	Conflicting valuation methodologies.

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Common Areas and Key Considerations for the Company (Cont.)

	Common Areas	Key Considerations
	**Financial Consistency**	Ensuring alignment between TP figures and local financials.
	**Audit Sensitivities**	Losses, low margins, or consistent underperformance attract scrutiny.
	**TP Compliance and Documentation**	**Comply with TP Requirements**, including the Annual TP form and TP local file. **Maintain supporting document** for each related party transaction incurred.

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04. Compliance Requirements and Documentation

What transfer pricing compliance requirements apply to the Company?

TP Form



- **Related party transaction application schedule "RPT schedule or Annex 1":** provides detailed information on related parties and related party transactions.
- **Deadline:** RPT schedule must be submitted together with the annual corporate income tax return, within **three months after fiscal year ending**.

TP Documentation



- **Local File:** provides specific information on material related party transactions of the local taxpayer and analyses on such transactions including the Transfer Pricing method.
- **Deadline:** No specific deadline, but it **MUST BE** available upon request by the Local tax authority.

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Does the Company qualify for any transfer pricing exemptions?

01. Contemporaneous TP documentation

- Ensure that there are no major material changes in the current year compared to the previous year.



02. Exemption from arm's length basis for loans (existing regulations)

- Prepare documents following the instructions of the General Department of Taxation.

04. Exemption from TPD for general transactions

- Has an annual turnover of less than **8 billion KHR** (~ **2 million USD**), and total assets of less than **4 billion KHR** (~ **1 million USD**).
- Has related party transactions (besides loans) of less than **1 billion KHR** (~ **250,000 USD**)

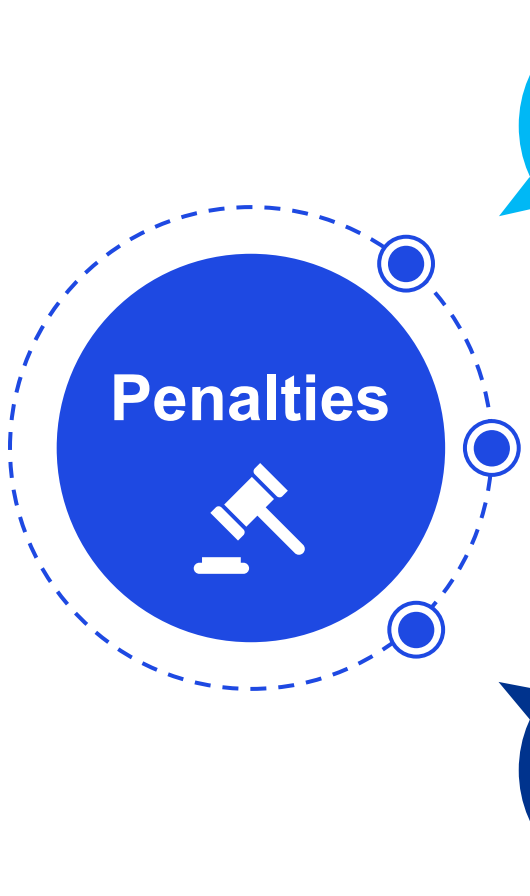
03. Exemption from TPD for loans (new update)

- Established for less than 3 years.
- A Single member private limited company taking loans from owner under **3 billion KHR** (**~ 750,000 USD**).
- A Sole proprietorship with loans from owner, spouse, or dependent child.

Note: Please be informed that the new Prakas No. 574 MEF.Prk.GDT ("Prakas 574") is effective from 1 January 2025 onward.

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What are the consequences of non-compliance?



Withdrawal or re-evaluation of tax compliance certification

Penalties for obstructing the implementation of the tax provisions

(Art. 235 of the 2023 LoT)

Criminal charges

(Art. 242 to Art. 243 of the 2023 LoT)

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Are you ready with your TP arrangements for the upcoming Tax and Transfer Pricing audit?

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Q&A



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Contact us

Email: info@kpmg.com.kh



So Dary

Partner
Head of Corporate Services
daryso@kpmg.com.kh
KPMG in Cambodia



Mom Rinsey Tola

Director
Tax & Corporate Services
mtola@kpmg.com.kh
KPMG in Cambodia



Chhoun Piseth

Associate Director
Tax & Corporate Services
pchhoun@kpmg.com.kh
KPMG in Cambodia



Tea Vuth Huykoeng

Associate Director
Global Transfer Pricing Services
htea@kpmg.com.kh
KPMG in Cambodia

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