

Technical Update

Tax and Corporate Services

January 2017

2017 Law on Financial Management (LoFM)

Tax on Income (Tol)

- The term "profit" is replaced by the term "income". As such, Tax on Profit should be referred to as "Tax on Income" (Tol).
- 20% Tol is applied for annual taxable income realized by a legal person;
30% Tol is applied for the annual taxable income realised under an oil or natural gas production sharing contract and the exploitation of natural resources; and
0% for the taxable income of a Qualified Investment Projects (QIP) during the tax exemption period.
- The progressive tax rate by tranche for income realized by a physical person, individual, and distributive share to each member of a partnership, which is not consider as a legal person, has been amended as follow:

Parts of annual taxable income (Riel):				Tax Rate
From	0	to	12,000,000	0%
From	12,000,001	to	18,000,000	5%
From	18,000,001	to	102,000,000	10%
From	102,000,001	to	150,000,000	15%
		Greater than	150,000,000	20%

- Tol on insurance company is now divided between property/risk insurance and life insurance as below:-
 1. Insurance or reinsurance on property or risk insurance in Cambodia is subject to Tol at 5% rate of the gross premium
 2. Life insurance or reinsurance (with saving features) is subject to Tol at 20% rate.

** Procedure for the payment of IT on insurance company shall be determined by the Prakas of the Ministry of Economy and Finance (MEF).*

Tax on Foreign Company's Branch

- Tol in respect of the Cambodian source income of a branch of a foreign company shall be determined as follows:-
 - Branch's Cambodian source income is subject to Tol based on its applicable Tol rate as above.
 - Branch's repatriation of Cambodian source income from the current tax year, the income:-
 - Shall be exempted from Additional Income Tax on Dividend Distribution (AITDD), if the repatriated income is after paying the tax on income as indicated above,
 - Shall be subject to AITDD, if the repatriated income is before paying the tax on income as indicated above,
 - Shall be subject to Withholding Tax (WHT) at the rate of 14% on income as stated in paragraph 10 of Article 33 New (income thru a PE by a non-resident)

Additional Income Tax on Dividend Distribution (AITDD)

- AITDD shall be imposed on any dividend payment and shall be determined by the difference between tax payable (i.e. Tol) and actual Tol paid during the period
- Enterprise receiving a dividend upon which AITDD has been paid which is further distributed to other shareholders, shall not be subject to AITDD.

Minimum tax

1% minimum tax on annual turnover, is extended to be imposed on any enterprise that does not maintain proper bookkeeping only. Moreover, the condition of maintaining proper bookkeeping shall be determined by the Prakas of the MEF.

Withholding Tax (WHT)

A 14% WHT shall be imposed on any payment of a Cambodian source income as stated in Article 33(new) of the LoT by a resident taxpayer, including **permanent establishment**, to a non-resident. This WHT is not applicable on re-insurance premium on property or other risks in Cambodia.

Salary Tax (ToS)

Resident employees' progressive ToS rates by tranche has been amended as follow:

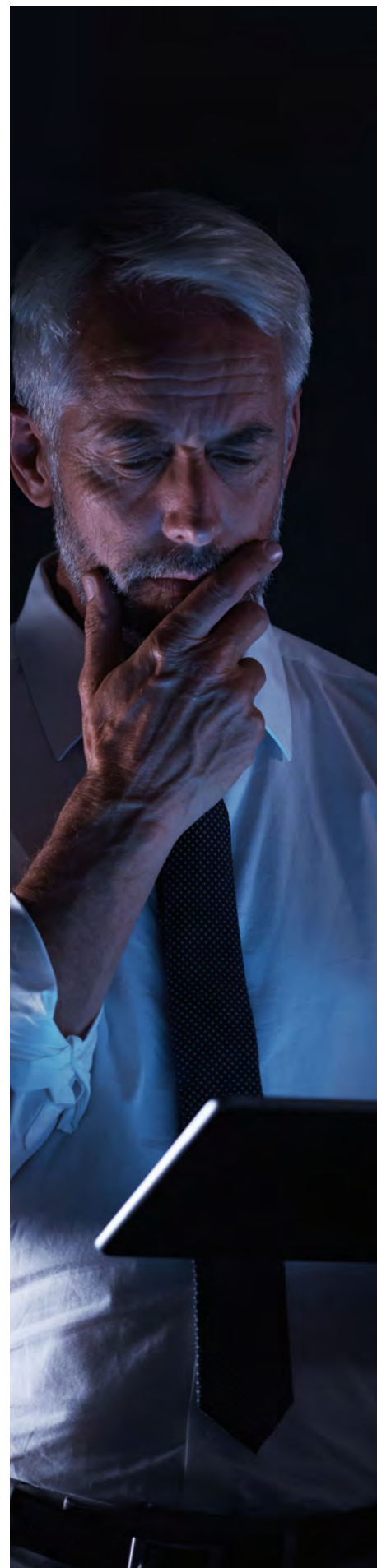
Taxable Parts of the Monthly Salary (Riel)				Tax Rate
From	0	To	1,000,000	0%
From	1,000,001	To	1,500,000	5%
From	1,500,001	To	8,500,000	10%
From	8,500,001	To	12,500,000	15%
		Over	12,500,000	20%

**A reduction of minor dependent children and housewife has been amended from 75,000 Riel to 150,000 Riel*

Value Added Tax (VAT)

The scope of Non-taxable supplies has been updated to extend the scope by including:

- Educational services.
- Electricity and clean water.
- Unprocessed agricultural products.
- Trash (solid/liquid) collection services.



Stamp Duty (SD)¹

1. Exemptions shall be provided for:

- Beneficiary or possession rights of land, as a form of concession from the Royal Government of Cambodia (RGC)
- Beneficiary or possession rights of immovable property, within a familial/relative group
- Beneficiary or possession rights of motorcycle, tricycle of all kinds, tractor and water-borne vehicle of all kinds, with a horsepower of up 150 cc.

2. SD relief shall be provided for receiving ownership or possession rights to immovable property within the relative circle.

Moreover, the procedure for SD exemption and relief on receiving ownership shall be determined by the Sub-decree of the Ministry of Economy and Finance (MEF).

¹ *The procedures for the collection of SD, SD exemption and relief have been determined in the Prakas no. 273 dated 17 March 2016*

Other amendments

- Medium and Large taxpayer shall be obligated to maintain proper bookkeeping, declare annual tax returns to the Tax Office within three months after the end of each tax year, even if there is a loss.
- Small taxpayer shall have the same obligation regarding bookkeeping and tax declaration. Additionally, in case the small taxpayer fails to maintain proper bookkeeping, taxable income shall be determined by the Tax Office after a review and calculation based on business activities determine by the MEF.
- There are various new definitions of the terms introduced in the 2017 LoFM. Notably, in the existing tax law, the definition of the term “stock dividend” had not been considered as a “dividend”. However, based on the revised definition of the term “dividend”, the term “stock dividend” is no longer referred to. This could potentially mean that a “stock dividend” is considered a “dividend” based on the revised definition.

Our comments:

There has been important changes in the existing tax provisions based on the 2017 LoFM as indicated above. As such, it is highly recommended that all taxpayers should pay close attention to these amendments in the coming months. There will certainly need to be more regulations and explanations being issued by the MEF and the Tax Office itself to provide further clarification and details on the implementation of the amendment of the tax law as provided in the 2017 LoFM and we will cover them in our future updates.

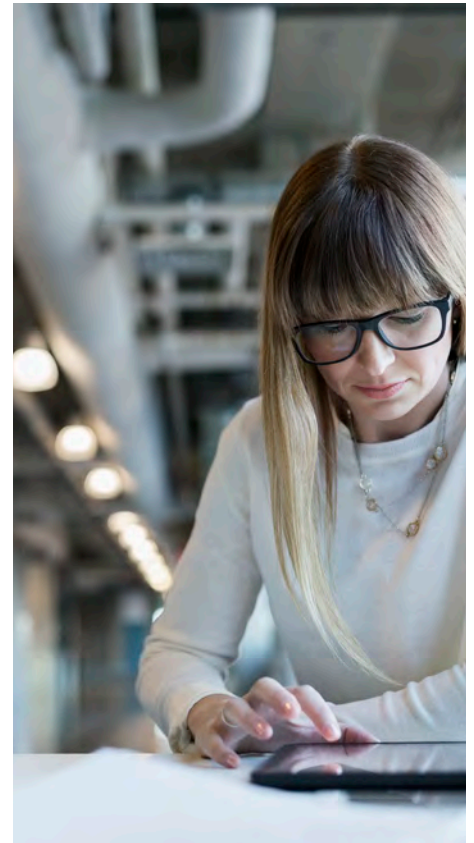
As a committed tax advisor to our clients, we welcome any opportunity to discuss the relevance of the above matters to your business.

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