

Technical Update

February 2021

2020 Tax on Income Declaration

(Notification No. 1861 GDT, dated 28 January 2021)

The General Department of Taxation (GDT) has issued Notification No. 1861 GDT dated 28 January 2021, on the filing of 2020 Tax on Income (ToI) return. According to the Notification, the GDT has set up an online system for taxpayers to file the ToI return online starting from the tax year 2020, i.e. E-filing for 2020 ToI return.

Furthermore, the GDT has set out the obligations on lodgement and payment of the 2020 ToI which shall be 31 March 2021 (or 3 months after the year-end for those taxpayers with different tax year than the calendar year).

Those enterprises with several branches must file ToI returns from the consolidated result of the head office and all branches (attached with separate list of income and expense, and fixed asset schedule for each branch).

Multi-project enterprises, as provided in Prakas 1127 MEF, dated 11 October 2016, shall declare and pay annual taxes separately and implement their obligation as stipulated in the Prakas accordingly.

Finally, staff or tax service agents representing and filing monthly and annual tax returns on behalf of the taxpayers must have staff identification or written authorization letter from the taxpayer to the tax service agents in accordance with law and provisions in effect.

Our comments

This is a regular annual instruction from the GDT during the annual tax declaration season. The setup of the online system for E-filing for 2020 ToI return should be convenient for taxpayers. However, it is not yet clear how this system will be implemented in practice.

Classification of Taxpayers Under the Self-Assessment Regime

(Prakas No. 009 MEF.Prk, dated 12 January 2021)

The Ministry of Economy and Finance (MEF) issued Prakas 009 MEF.Prk, dated 12 January 2021, on Classification of Taxpayers which shall determine the classification of taxpayers conducting business in the country.

In accordance with the Prakas, taxpayers shall be classified as small, medium and large taxpayers. The classification is based mainly on the form of the enterprise, turnover of the taxpayer and the sector which the taxpayer operates, i.e. agricultural, industrial or service & commercial.

We have summarized the criteria for classification of taxpayers into small, medium and large taxpayers as follows:

Taxpayers	Classification criteria
Small	Sole proprietorship enterprise or partnership which: <ul style="list-style-type: none"> * has 250 million to 1,000 million riels annual turnover for agricultural and service & commercial sectors; * has 250 million to 1,600 million riels annual turnover for industrial sector; * has 60 million riels turnover in 3 consecutive months in any calendar year; * expects 60 million riels turnover within the next 3 months; or * participates in bidding, negotiation, quotation for supply of goods or services activity including phasi.
Medium	A person under any one of the following criteria: <ul style="list-style-type: none"> * has 1,000 million to 4,000 million riels annual turnover for agricultural sector; * has 1,000 million to 6,000 million riels annual turnover for service & commercial sector; * has 1,600 million to 8000 million riels annual turnover for industrial sector; * registered legal person, representative office; * national and sub-national government institutions, associations or non-government organizations, or projects under any of these institutions; or * diplomatic missions and foreign consulate, international organizations and technical cooperation agency of other governments or projects under those institutions.
Large	A person under any of the following criteria: <ul style="list-style-type: none"> * has more than 4,000 million riels annual turnover for agricultural sector; * has more than 6,000 million riels annual turnover for service & commercial sector; * has more than 8,000 million riels annual turnover for industrial sector; * is a subsidiary of a multi-national corporation, foreign company branch; or * enterprises registered as a Qualified Investment Project (QIP).

If turnover declared by the taxpayer is found to not accurately reflect their real turnover, the Prakas also provides that the GDT has the power to reassess the classification of taxpayers using the size of the taxpayer's business asset as follows:

Taxpayers	Classification criteria
Small	<ul style="list-style-type: none"> * business asset during the year from 200 million riels to 1,000 million riels for agricultural and service & commercial sectors; or * business asset during the year from 200 million riels to 2,000 million riels for industrial sector.
Medium	<ul style="list-style-type: none"> * business asset during the year from 1,000 million riels to 2,000 million riels for agricultural and service & commercial sectors; or * business asset during the year from 2,000 million riels to 4,000 million riels for industrial sector.
Large	<ul style="list-style-type: none"> * business asset during the year of more than 2,000 million riels for agricultural and service & commercial sectors; or * business asset during the year of more than 4,000 million riels for industrial sector.

The term “turnover” refers to the value of supply of goods or services from the business activity of the taxpayer.

The term “asset” refers to the assets use in the business including current assets and non-current assets.

The classification provided by this Prakas shall apply to newly registered taxpayers starting from the year 2021 onwards.

Our comments

This Prakas is an update to the previous regulations on taxpayer classification, the latest being in Prakas no. 025 MEF. Prk dated in 2018. A notable update is the different turnover threshold consideration is made for agricultural, industrial sector, the service and commercial sectors. The turnover threshold is quite higher for those taxpayers considered to be industrial sector.

The most notable provisions in the MEF’s Prakas is the power given to the GDT to reassess the classification of taxpayers based on their business assets. This could potentially be highly impactful, for example a medium taxpayer being reassessed to large taxpayer would change their tax office in-charge; a small taxpayer being reassessed up to a medium taxpayer would be subject to different tax rates and accounting requirements.

Instruction to implement the Royal Government’s 7th round of tax relief *(Letter No. 006 GDT, dated 4 January 2021)*

Earlier this year, the GDT issued Letter No. 006 GDT, dated 4 January 2021, on the implementation of the government’s 7th round of tax relief measure to further combat the impact on the major sectors of the economy, mainly for the tourism and banking sector.

The tax reliefs are as follows:

Tourism sector

For hotel, guesthouses, restaurant and tourist agency company registered under the GDT and operating in Phnom Penh, Siem Reap, Sihanoukville, Kep, Kampot provinces and Bavet and Poipet cities shall receive the following tax relief:

- continue to be exempted payment of monthly taxes of all kinds from January until end of March 2021.
- exempted from Tax on Income (ToI) or Minimum Tax. Tax return declaration for annual tax for year 2020 shall still be required.

For tourist agency company and other operators in the tourism sector, shall continue to be exempted from patent tax and stamp tax (on signage). The taxpayers shall still have to declare the tax as normal, which shall become state-charged, and the patent tax for year 2021 shall be printed out.

For airline companies registered in Cambodia, during the period from January to March 2021, shall continue to be exempted from Minimum Tax and shall not be required to pay Prepayment of ToI.

Housing developers

Housing developers registered with the MEF or its municipal/provincial departments and with the GDT properly shall continue to be eligible for Stamp Duty exemption for purchases of houses from them at less than US\$75,000 from January to March 2021.

Banks and microfinance institutions

Loan providers, local and overseas, for banks and microfinance institutions shall be eligible for reduction of WHT rates on interest relating to loans as follow:

For new loans except old loans or request for an addition to an old loan

- 5% WHT rate on interest payments to resident and non-resident taxpayers for the year 2021;
- 10% WHT rate on interest payments to resident and non-resident taxpayers for the year 2022;

Normal WHT rate shall be re-implemented for the year 2023 onward.

For old loans

- 10% on interest paid to resident and non-resident taxpayers for the year 2021;
- Normal WHT rate shall be re-implemented for the year 2022 onward.

Our comments

The impact on the economy due to the Covid-19 continues in Cambodia and major sectors such as tourism are still struggling. Hence, these further tax relief measures from the government should help support and promote economic growth and thus sure to be welcomed by the relevant private sectors.

The most notable tax relief is the exemption of annual taxes for hotel, restaurant, tourist agency, etc as raised above. This should help the struggling businesses during this difficult time, i.e. not having to pay any income taxes on any profit they may have earned.

The taxpayers also still have obligation to file the monthly and annually tax returns by due date as normal whether there is tax payable or not.

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

KPMG Cambodia Ltd.

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