



Cambodia news brief

A periodic summary of new rulings and documents relating to legal, tax, and investment developments in Cambodia



June 2017

Subject:

Guidelines on implementing value added tax (VAT) for non-taxable supplies

The following report may be of interest to:

Banks, financial institutions and certain taxpayers



Guidelines on implementing value added tax (VAT) for non-taxable supplies

(Prakas No. 559 MEF-Brk dated 25 May 2017)

The Ministry of Economy and Finance (MEF) has issued Prakas No. 559 to provide guidelines on the implementation of VAT for non-taxable supplies in accordance with Article 57 of the Law on Taxation amended by the Law on Financial Management for 2017.

This Prakas intends to clarify certain goods and services that are non-taxable supplies for VAT purposes as stated in Article 57 of the Law on Taxation to ensure consistency of VAT implementation.

This Prakas is applicable to self-declaration taxpayers making non-taxable supplies including:

1. Public postal service
2. Hospitals, clinics, medical and dental services, and the sale of medical and dental goods incidental to the performance of such services
3. The services of transportation of passengers by a wholly state owned public transportation system
4. Insurance services
5. Primary financial services
6. The importation of materials for personal use that are exempt from customs duties in accordance with the customs provisions
7. Non-profit activities for serving the public interest
8. Educational service
9. Electric power and clean water

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10. Unprocessed agricultural products
11. Solid and liquid waste removal or collection services

The Prakas defines the important term 'primary financial services', which has not been defined previously. The term is defined as the provision of financial services for making profits from the following:

- a. Receiving deposits and providing loans or credit, **but does not include fees relating to the provision of the loan or credit**
- b. Issuing an Initial Public Offering, trading of securities or other financial instruments, and clearance and settlement (payment) services in the Cambodian securities market
- c. Money exchange services
- d. Financial security services
- e. Trade of gold that has not been processed into jewellery

Based on the above definition, the scope of VAT-exempt supplies for banking and financial institutions is much more limited than the current practice of banks and financial institutions.

Other terms of non-taxable supplies are also defined including:

1. *Electric power* - refers to the electric power supplied for use in daily living or business activities. Supplies of transmission networks and other survey or measurement instruments are not the supply of electric power.
2. *Clean water* - refers to clean water supplied for use in daily living or business activities. The instalment of pipes and survey or measurement instruments are not clean water supply.
3. *Unprocessed agricultural products* - refers to trees, shells, leaves, flowers, fruits, seeds, roots, rhizomes, or resins of plants derived from locally planted agriculture that are yet to be sliced or broken and have not been processed into final products.
4. *Solid and liquid waste* - refers to solid and liquid substances or materials that are no longer useful, or not used; or, they are required to be abandoned.

Input tax credit on the import or local buying of equipment and raw materials for the production and supply of goods or services as mentioned in the 11 points above, must comply with Articles 29-41 of the Sub-Decree on VAT.

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