

# Cambodia news brief

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

## Subjects:

1. Tables for annual and monthly income taxes
2. Implementation of DTA between Cambodia and Hong Kong
3. Implementation of Sub-Decree on tax incentives for SMEs in priority sectors

## The following report may be of interest to:

General taxpayers

### Tables for annual and monthly income taxes

(Sub-Decree No.09 ANK.BrK dated 13 February 2020)

This Sub-Decree applies to annual income tax and monthly salary tax.

Under the Law on Taxation, taxable income, realized by a physical person or a sole proprietorship, or distributed to members of a partnership not classified as a legal entity, is taxed under these progressive tax rates:

|   | Parts of the annual taxable income |                   |                      | Tax rate |
|---|------------------------------------|-------------------|----------------------|----------|
| 1 | from                               | 0 riels           | to 16,000,000 riels  | 0%       |
| 2 | from                               | 16,000,001 riels  | to 24,000,000 riels  | 5%       |
| 3 | from                               | 24,000,001 riels  | to 102,000,000 riels | 10 %     |
| 4 | from                               | 102,000,001 riels | to 150,000,000 riels | 15%      |
| 5 |                                    | Over              | 150,000,000 riels    | 20%      |

For resident employees the tax to be paid is determined on the monthly taxable salary and must be withheld by the registered employer at these progressive rates:

|   | Taxable parts of the monthly salary |                 |                     | Tax rate | Calculation formula      |
|---|-------------------------------------|-----------------|---------------------|----------|--------------------------|
| 1 | from                                | 0 riels         | to 1,300,000 riels  | 0%       | Nil                      |
| 2 | from                                | 1,300,001 riels | to 2,000,000 riels  | 5%       | Salary x 5% - 65,000     |
| 3 | from                                | 2,000,001 riels | to 8,500,000 riels  | 10 %     | Salary x 10% - 165,000   |
| 4 | from                                | 8,500,001 riels | to 12,500,000 riels | 15%      | Salary x 15% - 590,000   |
| 5 |                                     | Over            | 12,500,000 riels    | 20%      | Salary x 20% - 1,215,000 |

The non-tax threshold has been increased from 1,200,000 riels to 1,300,000 riels which is a result of a tax reduction of 5,000 riels per employee per month. This Sub-Decree comes into effect on 13 February 2020.

## Implementation of DTA between Cambodia and Hong Kong

(Prakas No. 117 MEF.BrK dated 7 February 2020)

The purpose of this Prakas is to implement the Double Taxation Agreement (DTA) between the Government of the Hong Kong Special Administrative Region of the People's Republic of China and the Royal Government of the Kingdom of Cambodia for the avoidance of double taxation and the prevention of tax evasion with respect to taxes on income. This DTA is effective from 1 January 2020.

This DTA will be implemented in accordance with the 'Instruction on rules and procedures for the implementation of agreements for the avoidance of double taxation and the prevention of tax evasion with respect to taxes on income of the General Department of Taxation (GDT)' and relevant normative acts in force.

Pre-approval from the GDT is needed to be entitled to the DTA benefits.

## Implementation of Sub-Decree on tax incentives for SMEs in priority sectors

(Prakas No. 159 MEF.BrK dated 17 February 2020)

The Ministry of Economy and Finance issued Prakas No. 159 to provide guidelines for the effective implementation of Sub-Decree No. 124 ANK.BrK dated 2 October 2018 on the tax incentives for Small and Medium Enterprises (SMEs) in priority sectors.

The tax incentives apply to SMEs in these priority sectors: (i) agricultural or agro-industrial products; (ii) food processing and manufacturing; (iii) manufacturing of local consumable goods, waste recycling and production of goods for the tourism sector; (iv) manufacturing of finished products, spare parts or assembly parts for supplying other manufacturers; (v) IT research and development, and IT-based management services; (vi) enterprises located in SME cluster zones, and cluster zone development enterprises.

The tax incentives for the SMEs are:

1. Income tax exemption for three years from the date of tax registration for newly registered enterprises or from the date of the existing enterprises' tax registration update;
2. Income tax exemption for five years from the date of tax registration for newly registered enterprises or from the date of the existing enterprises' tax registration update, if the SME meets one of the following conditions:
  - a. Enterprise uses at least 60% local raw materials, or
  - b. Enterprise increases its employee number by 20%, or
  - c. Enterprise is in a SME cluster zone.
3. Exemption of prepayment of income tax and minimum tax during the income tax exemption periods above;
4. Incentives for deductible expenses:
  - a. A 200% tax deductible expense for use of accounting record software.
  - b. A 200% tax deductible expense for accounting record maintenance training or employee technical training.
  - c. A 150% tax deductible expense for investment in machinery or new technology equipment that increases productivity.

In order to enjoy these tax incentives, SMEs must be registered, update their enterprise information with the tax authorities as required by tax laws and regulations, be in a priority sector, and maintain accurate accounting records. These SMEs must still submit monthly and annual income tax returns by the deadline to tax authorities even though they are exempt from income tax.



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