

## CAMBODIA<sup>1</sup>

### Cambodia's DTA Situation

In recent years, the Tax Department received proposals from various countries to conclude the Double Tax Agreement with them. Since there has been a lot of arguments among various government agencies on the pros and cons of concluding the DTA, and due to the lack of experience in this field, the Tax Department was reluctant to start negotiations with any of the above mentioned countries. The Tax Department needs more time while the comprehensive tax reform is conducted, to learn more about UN and OECD or other models of convention and their commentaries and implications, and to train its staff to enable them to conclude the DTA.

In its Public Financial Management (PFM) reform program, one of the action plans listed by the Tax Department is to enter into DTA with other countries especially ASEAN members. Since the donor community has been reluctant to assist in this field (except for some training on OECD but not assisting to prepare a conventional model for Cambodia), the Tax Department has worked solely to prepare its DTA model with a valuable voluntary help from a private foreign expert. In the DTA model preparation stage, a special team has been formed to study and analyze the draft DTA proposed by various countries such as Thailand, Malaysia, Indonesia, Myanmar, Republic of Korea, Russia, People's Republic of China, Viet Nam, Czech Republic, Algeria and State of Qatar in order to develop a proper model for Cambodia. However, the Tax Department has recognized that the assigned staff has no experience in negotiating DTAs. It is, therefore, important for them to be trained and to be assisted by a negotiation specialist.. However, due to the present economic policy of the Royal Government of Cambodia to attract more foreign direct investments to boost the economy and to create more employment, the conclusion of DTA with a number of countries is very much awaited.

The DTA draft model is completed in principle but it needs further discussion and modification among management level before it is forwarded to the Ministry of Economy and Finance for approval, and to the Royal Government of Cambodia for final approval.

#### SUMMARY OF VAT SYSTEM

##### Scope of application

The value added tax (VAT) was implemented in Cambodia in 01 January 1999. This tax is applicable to Large and Medium Taxpayers who supply goods (other than land or money) and/or services. Under the VAT system, "output tax" is collected from customers by the VAT taxable person, by adding VAT to the amount charged to them. However, the taxable person also pays "input tax" to his suppliers on purchases made. The taxable person shall pay the output tax after deducting the input tax paid to his suppliers. In theory, the tax is ultimately borne by the consumer or a business outside the VAT system.

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*Taxable supply*

The term taxable supply means:

1. The supply of goods or services by a taxable person in the Kingdom of Cambodia. The taxable person is any taxpayer under the Self-Declaration System and others as specified by regulations.
2. The appropriation of goods for his own use by a taxable person.
3. The creation of gift or supply at below cost of goods or services by a taxable person.
4. The import of goods into the customs territory of the Kingdom of Cambodia.

*Taxable value*

For the purpose of VAT the taxable value shall be determined as follows:

1. The taxable value for any supply shall be the price of the goods or services the supplier charges the customers. The taxable value includes any charges of transportation and other items payable to the supplier with respect to the supply, including any specific tax but excluding VAT.
2. When the payment for a taxable supply involves any consideration other than money for the direct or indirect benefit of the seller, this consideration shall be included in the taxable value at its fair market value.
3. The taxable value for imported goods is CIF + Customs duties + Excise tax if any + Other Chargeable Fees. If there is no such value, the fair market value shall apply.

*Non-taxable supplies*

Non-taxable supplies are as follows:

1. Public postal service;
2. Hospital, clinic, medical, and dental services and the sale of medical and dental goods incidental to the performance of such services;
3. The service of transport of passengers by wholly state-owned public transportation system;
4. Insurance services;
5. Primary financial services;
6. The import of articles for personal use that are exempted from customs duties;
7. Non-profit activities in the public interest; (which decided by Ministry of Economy and Finance)
8. The import or the purchase of goods for use in the exercise of the official function of foreign diplomatic and consular missions, international organizations and agencies of technical cooperation of other countries.

*Non-deductible input tax*

Taxable persons shall not be allowed input tax credit for any tax paid on:

1. Entertainment, amusement and recreation expense unless the taxable person carries is a provider of entertainment, amusement or recreation;

2. Purchase or import of automobiles, unless the business of the taxable person deals in, or hires such automobiles; or
3. Purchase or import of certain petroleum products, unless the taxable person is a supplier of such petroleum products.
4. The term "Entertainment" means the provision of food, beverages, tobacco, accommodation, or hospitality of any kind.
5. The term "Automobile" means any automobile designed solely for the transport of person not exceeding ten in number.
6. The term "Petroleum products" means regular or super gasoline, diesel oil, and lubrication oil.

#### [Input tax partly for taxable supplies and partly for non-taxable supplies](#)

In the case of goods or services purchased which are partly used for taxable supplies and partly for non-taxable supplies, tax credit shall be allowed only on the part that is used for taxable supplies. The input tax that can be allowed as a credit to the taxable person for a tax period is:

1. The whole of the input tax where all supplies for that period are taxable supplies;
2. Where only part of the taxable person's supplies for that period are taxable supplies, the amount of credit allowable is calculated by formula :  $A \times \frac{B}{C}$ .

A : the total amount of input tax for the period;

B : the total value of taxable supplies exclusive of VAT made by the taxable person during the period; and

C : the total value of taxable and non-taxable supplies exclusive of VAT made by the taxable person during the period, other than the value of a non-taxable supply of the transfer of a business.

#### [Rates of tax](#)

There are two rates of VAT as follows:

- 0% applies only to goods exported from the Kingdom of Cambodia and services consumed outside Cambodia. Exports are defined as including international transportation of passengers and goods.
- 10% applies to all supplies other than exports and non-taxable supplies.

#### [Value Added Tax Return](#)

The taxable person must file the monthly VAT return in the form prescribed by the tax administration by the 20<sup>th</sup> of the month following the month that the supplies have been made.