

Case Study

# TAX SYSTEM

IN CAMBODIA

---

TRANSPARENCY INTERNATIONAL CAMBODIA

**Transparency International Cambodia**

#3, Street 390, Sangkat BoengKengkang 3, Khan Chamkarmorn,

Phnom Penh, Kingdom of Cambodia

Phone: (+855) 23 21 44 30/ 23 21 42 11

Website: [www.ticambodia.org](http://www.ticambodia.org)

Global website: [www.transparency.org](http://www.transparency.org)



Transparency International Cambodia is the fully-accredited local chapter of Transparency International and was officially founded on 5 July 2010 by a number of anti-corruption activists and professionals committed to the creation of transparent and accountable Cambodia. It has since built a strong institution arduously fighting corruption and promoting integrity, transparency and accountability in the country.

We work together with individuals and institutions at all levels including government, civil society, business, media and the wider public to achieve sustainable economic development, promote integrity, and fight against corruption.

This document was produced with the financial assistance of the European Union, Sweden and Switzerland. The views expressed herein can in no way be taken to reflect the official opinion of the European Union, Sweden or Switzerland.

Cover photo credit to Phalinn Ooi under a Creative Commons Licence.

**© 2016 Transparency International. All rights reserved.**



Schweizerische Eidgenossenschaft  
Confédération suisse  
Confederazione Svizzera  
Confederaziun svizra

# Table of Contents

---

|   |           |
|---|-----------|
| <b>Abbreviations and Acronyms .....</b>   | <b>5</b>  |
| <b>1. Introduction .....</b>  | <b>6</b>  |
| <b>2. Purpose of the study.....</b>   | <b>6</b>  |
| <b>3. Literature Review.....</b>  | <b>7</b>  |
| <b>4. Methodology.....</b>  | <b>9</b>  |
| <b>5. Tax System in Cambodia .....</b>  | <b>10</b> |
| 5.1 General Overview .....  | 10        |
| 5.2. Tax Registration .....   | 10        |
| 5.2.1. <i>Small Taxpayers</i> .....   | 11        |
| 5.2.2. <i>Medium and Large Taxpayers</i> .....  | 13        |
| 5.3. The Most Recent Progresses from the GDT.....                                       | 14        |
| 5.3.1 <i>Abolishment of Withholding Tax on Fringe Benefit for All Businesses</i> .....  | 14        |
| 5.3.2 <i>Visiting All Enterprises (registered and non-registered) in Cambodia</i> ..... | 14        |
| 5.3.3 <i>Revision of Minimum Salary Tax Threshold</i> .....                             | 14        |
| <b>6. Tax Environment from Anti-Corruption Perspective.....</b>                         | <b>15</b> |
| 6.1 Perspective from Taxpayer Compliance Companies .....                                | 15        |
| 6.2 Perspective from Non-Taxpayer Compliance Company .....                              | 18        |
| 6.2.1. <i>Lack of Awareness of Tax System and Regulation</i> .....                      | 19        |
| 6.2.2 <i>High Perception of Corruption</i> .....  | 19        |
| 6.2.3 <i>Less Competitive Advantage</i> .....   | 19        |
| 6.2.4 <i>Complexity of Tax Law</i> .....  | 19        |
| 6.2.5 <i>Personal Difficulties/Obligation Pressures</i> .....                           | 20        |
| 6.2.6 <i>Low Transparency of Public Goods and Services</i> .....                        | 20        |
| <b>7. Causes of Corruption and Its Impact on Tax System.....</b>                        | <b>20</b> |
| 7.1. Causes of Corruption .....   | 20        |
| 7.1.1. <i>Complexity of Tax Law</i> .....   | 20        |
| 7.1.2. <i>Monopoly Power of Tax Officials</i> .....                                     | 21        |
| 7.1.3. <i>Mutual Benefit</i> .....  | 21        |
| 7.1.4. <i>Patronage System</i> .....  | 21        |
| 7.1.5 <i>Habits of Facilitation Payment</i> .....                                       | 21        |
| 7.1.6. <i>Overall Environment in the Public Administration</i> .....                    | 21        |
| 7.2. Impact of Corruption on Tax System .....   | 21        |
| <b>8. Conclusion and Recommendations.....</b>   | <b>22</b> |
| <b>9. References.....</b>   | <b>24</b> |
| <b>10. Annexes.....</b>   | <b>26</b> |

## LIST OF FIGURES

|  |    |
|--|----|
| Figure 1: Tax on Salary .....  | 9  |
| Figure 2: Tax Registration Process .....   | 12 |
| Figure 3: How economies in East Asia and the Pacific (EAP) rank on the ease of doing business .....  | 15 |
| Figure 4: How economies in East Asia and the Pacific (EAP) rank on the ease of starting a business . | 16 |
| Figure 5: Factors are likely to upset the tax compliance .....                                       | 17 |
| Figure 6: Factors to hinder some companies from registering with the tax administration.....         | 19 |

## LIST OF ANNEXES

|   |    |
|---|----|
| Annex 1: Interview guide for Non Tax Compliant Company..... | 26 |
| Annex 2: Interview guide for Tax Compliant Company .....    | 27 |

## Abbreviations and Acronyms

|             |   |
|-------------|---|
| BIP         | Business Integrity Programme              |
| CTA         | Committee of Tax Arbitration              |
| EUROCHAM    | European Chamber of Commerce              |
| EAP         | East Asia and the Pacific                 |
| GDCE        | General Department of Customs and Excise  |
| GDT         | General Department of Taxation            |
| ITC         | International Tax Compact                 |
| KHR         | Khmer Riel                                |
| MEF         | Ministry of Economy and Finance           |
| MLVT        | Ministry of Labor and Vocational Training |
| MoC         | Ministry of Commerce                      |
| NSSF        | National Social Security Fund             |
| RGC         | The Royal Government of Cambodia          |
| QIP         | Qualified Investment Project              |
| SME         | Small and Medium Enterprise               |
| TI Cambodia | Transparency International Cambodia       |
| TOP         | Tax on Profit                             |
| USD         | United States Dollar                      |
| VAT         | Value Added Tax                           |

## 1. Introduction

Cambodia, like many other developing countries, struggles with social equity issues that lead to corruption amongst public officials who require informal payments to provide a sufficient income for their families. Ultimately, corruption by public officials remains a major constraint for businesses operating in Cambodia. Cambodia's business environment has been identified as suffering from high unpredictability and high overhead costs. Small firms, in particular, find this business environment challenging. Cambodia is currently ranked 150 out of 168 countries in Transparency International's Global Corruption Perception Index and corruption is considered to be endemic.<sup>1</sup> Cambodia's registration process is classified as corrupt and inefficient.<sup>2</sup> According to the World Bank's Economy Rankings, Cambodia is ranked 131 out of 189 countries in terms of ease of doing business.<sup>3</sup> Cambodia is ranked the fifth country most at risk of business bribery.<sup>4</sup> Furthermore, Cambodia is ranked as the most corrupt country in Southeast Asia and 133th country out of 150 countries in 2015<sup>5</sup>.

The Royal Government of Cambodia ("the RGC") has done very well over the past decade, with an average economic growth rate of more than seven percent and a sharp increase of tax revenue by 25% in 2015.<sup>6</sup> The improvement cannot be separated from the essential role played by the private sector. As a result, the RGC has undertaken comprehensive reforms to improve the so-called "Doing Business in Cambodia" by making registering a business easier, through a simplified name check, and streamlining tax regulation. In December 2015, the Law on Financial Management 2016 was promulgated, which abolished the Estimated Regimes of Taxation in favor of the Real Regimes of Taxation (commonly referred to as self-assessment regimes). The reform, indeed, has encouraged companies to become more compliant, but it also has created some misunderstandings due to a lack of information and awareness of tax regulations.

In line with TI Cambodia's Business Integrity Programme and in order to support the companies who are or seek to become tax compliant, Transparency International Cambodia (TI Cambodia) has initiated a study entitled "Case Study on Tax System," which aims to identify key problem areas in Cambodia's tax environment and actionable solutions for improvement. These research findings will provide the necessary foundation to develop recommendations to the government, businesses, and civil society to reduce corrupt practices in the tax system that are affecting the private sector in Cambodia.

## 2. Purpose of the study

The purpose of this case study is threefold: (i) describe Cambodia's tax environment from an anti-corruption perspective, (ii) identify and analyze the different ways in which companies experience corruption and the impact of corruption on the tax system, and (iii) identify key recommendations to improve the tax system in Cambodia based on feedback from the private sector.

---

<sup>1</sup> Transparency International, Corruption Perceptions Index 2015, available at: <http://bit.ly/1Vq1aQe>.

<sup>2</sup> Bertelsmann Transformation Index, Cambodia Country Report, 2010, available at: <http://bit.ly/2gBxFjh>.

<sup>3</sup> The World Bank Group, Economy Rankings, June 2016, available at: <http://bit.ly/K11iGM>.

<sup>4</sup> TRACE International, Inc. 2016 Trace Matrix, available at: <http://bit.ly/2htlVRw>.

<sup>5</sup> World Audit 2015 Corruption Rankings, 2015, available at: <http://bit.ly/1Xow5gK>.

<sup>6</sup> EuroCham, White Book 2016: Trade and Investment Policy Recommendations, March 2016, available at: <http://bit.ly/2hrCA56>. P. 26.

In order to accomplish the study purpose, the analysis uses an exploratory case method to investigate private companies, tax service providers (tax consultants), business associations and government officials. The case study explores the perception of private companies on the tax system by drilling down into their tax practices with tax officials, including both positive and negative aspects of tax regulations. The study also explores the impact of recent reforms on the tax system and some of the major causes of corruption in the tax system faced by private sector. The study uses its findings to identify solutions and recommendations for the government to consider in order to improve the tax system and business environment in Cambodia. Improving the tax system and business environment in Cambodia will ultimately lead to an improved competition and investment environment.

The report is divided into six sections:

- 1) Literature Review;
- 2) Methodology;
- 3) Summary of Tax System in Cambodia;
- 4) Tax Environment from the Anti-Corruption Perspective;
- 5) Cause of Corruption and Its Impact on the Tax System in Cambodia; and
- 6) Conclusion and Recommendations.

### 3. Literature Review

The literature review seeks to share definitions of key terms, which are most essential to the report findings, those are: (i) corruption, (ii) Estimated Regime Taxpayers, (iii) Self-Assessment Regime Taxpayers, (iv) prepayment of tax on profit, (v) withholding tax, (vi) value added tax (VAT), (vii) patent tax and (viii) tax on salary.

- **Corruption:** is the abuse of entrusted power for private gain.<sup>7</sup> The World Bank defines corruption as the abuse of public office for personal gain.<sup>8</sup>
- **The Estimated Regime Taxpayers:** it was previously applied for those businesses that have annual turnover lower than those businesses in the self-assessment regime type, which was determined by the tax administration. The taxpayers who were subject to the tax on profit under the estimated regime system would pay the tax every month at the time fixed by the tax administration. An estimated tax regime taxpayer paid the tax to a tax official who came around monthly. As a consequence, the government found collecting tax through this regime type challenging; therefore, it decided to abolish this Estimated Regime from the tax system beginning in 2016.
- **The Self-Assessment Regime Taxpayers:** beginning in 2016, the Self-Assessment Regime Taxpayers refers to those whose annual turnover exceeds approximately KHR250 million and are classified into three types: small taxpayers, medium taxpayers and large taxpayers based on their annual turnover.<sup>9</sup>

---

<sup>7</sup> Transparency International, What is Corruption? Available at: <http://bit.ly/2hk4wgT>.

<sup>8</sup> The World Bank Group, Helping Countries Combat Corruption: The Role of the World Bank, available at: <http://bit.ly/1G8kxVo>.

<sup>9</sup> Cited from an interview made by Bayon Television (BTV) with H.E. Kong Vibol, Director General of the General Department of Taxation (GDT) on June 30, 2016. See in 5.2. Tax Registration in this report for more details about the Self-assessment Regime Taxpayers.

- **Prepayment of Tax on Profit:** all taxpayers shall be obligated to pay a monthly prepayment of tax on profit at the rate of one percent (1%) of turnover inclusive of all taxes, except VAT. The prepayment shall be deducted from the tax on profit at the annual liquidation of the tax.<sup>10</sup>
- **Withholding Taxes:** the general withholding tax is determined as any resident taxpayers who make payments on interest, royalties, rental and incomes, which are connected to the use of property, dividend and compensation of technical or management service to non-resident taxpayers shall be required to withhold the withholding tax at a rate of 14 percent. The withholding tax is due whenever the payment is made or when the expense is recorded. Certain payment to resident taxpayers are also subject to the withholding tax at the following rates:
  - o Rental (10%);
  - o Interest (15%, except payment to local financial institutions);
  - o Service (15%, except payment to registered taxpayer with a proper VAT invoice); and
  - o Royalties (15%)

The withholding tax shall not apply to interest paid to a domestic bank or savings institution, or to the payment of tax-exempt income.<sup>11</sup>

- **VAT:** the VAT tax is generally borne by end consumer, or a business that is exempt from tax, as these persons cannot recover input tax paid. Based on a VAT system in Cambodia, output tax is collected from a customer by adding VAT to the amount charged to the goods or service. However, a business also pays input tax to its supplier on purchases that it makes. The Rates of VAT are as follows:
  - o 0%: This rate 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.
  - o 10%: This standard rate applies to all supplies other than exports and non-taxable supplies<sup>12</sup>.
- **Patent Tax:** the patent tax is an annual business registration tax, which requires all companies operate in Cambodia to pay by the end of March annually. If a company carries out different types of businesses, a separate patent tax certificate is required for each distinct business activity. Based on the Prakas No. 1821, "The Procedure for Management of Patent Tax Collection," the patent tax payments are set and divided into the followings: KHR400,000 for small taxpayers; KHR1,200,000 for medium taxpayers and between KHR3,000,000 and

---

<sup>10</sup> General Department of Taxation of Ministry of Economy and Finance, Prepayment of Profit Tax, available at: <http://bit.ly/2hjODUp>.

<sup>11</sup> Bun & Associates, Introductory Guide, Taxation System in Cambodia, 2014, available at: <http://bit.ly/2gByFnm>.

<sup>12</sup> Ministry of Economy and Finance, Prakas on Implementation on Value Added Tax (VAT) for supporting Industry or Contractor that Supplies Goods or Service for Serving the Export of the Garment Industry, Textile Industry, Footwear Industry, Carry-Bag and Handbag Industry and Hat Industry, Prakas No. 311 MEF. Br.K, dated March 19, 2014, available at: <http://bit.ly/2hCtXwR>.



5,000,000 for large taxpayers. The certificate of patent tax is required to display at the principal place of enterprise.<sup>13</sup>

- **Tax on Salary:** all resident employees' salary is subject to the tax on salary on Cambodian and foreign sourced salary income at a progressive rate from 0% to 20% per month and non-resident employee is subject to a flat rate of 20% on salary received from Cambodian source salary income only. Salary is defined as remuneration; wages; bonuses; overtime; compensation; direct benefit or indirect benefit or advance payment provided by the employer.<sup>14</sup> The tax base is reduced by KHR75,000 per month for every dependent child and nonworking spouse of the resident taxpayer.<sup>15</sup>

Figure 1 below illustrates the tax on salary at the progressive rates from 0% to 20%.

Figure 1: Tax on Salary

| Monthly Salary         |                        |      |
|------------------------|------------------------|------|
| Khmer Riel (KHR)       | Approx. USD equivalent | Rate |
| 0-800,000              | 0-200                  | 0%   |
| 800,001 - 1,250,000    | 200 - 312.50           | 5%   |
| 1,250,001 - 8,500,000  | 312.50 - 2,125         | 10%  |
| 8,500,001 - 12,500,000 | 2,125 - 3,125          | 15%  |
| 12,500,001 - upwards   | 3,125 - upwards        | 20%  |

Exchange rate USD1 = KHR4,000

(Source: The DFDL Tax Pocket Guide to Investing in Cambodia, 2016 Edition)

#### 4. Methodology

The study uses qualitative research methods to obtain insight into the tax environment from an anti-corruption perspective, and explores in-depth the complexity inherent in the law on taxation in Cambodia. In order to develop an in-depth understanding of the tax environment in Cambodia, the case study utilizes both primary and secondary data. In order to obtain the primary data, the analysis used an exploratory method to investigate with owners or top managers of companies, tax service providers (consultants), and business associations. The study collected primary data from 12 large, medium, and small companies in Cambodia through qualitative surveys by interviewing with them individually and separately. The qualitative survey explores the perception of businesses on taxation and engagement with tax officials. In addition, it also explores the impact of recent reforms on the tax system, as well as the major causes of corruption in the tax system. The key findings were used to formulate recommendations for the government to consider improving the tax system and business environment in Cambodia.

<sup>13</sup> Ministry of Economy and Finance, Prakas on the Procedure of Management of Patent Tax Collection, No. 1821, dated 25 December 2015, available at: <http://bit.ly/2gTBU7s>.

<sup>14</sup> *Id.*

<sup>15</sup> General Department of Taxation of Ministry of Economy and Finance, Tax on Profit, available at: <http://bit.ly/2hjKNe0>.

## 5. Tax System in Cambodia

### 5.1 General Overview

Tax is a major source of revenue for the RGC. The revenue is intended to support government expenditure of public services, namely hospitals, roads, border and heritage defense, salary for civil servants, salary for soldiers and forces, bridges and schools.<sup>16</sup>

Since the beginning of 2016, the businesses surveyed have seen the release of a number of regulations, which are aimed at overhauling the system, namely the abolishment of the estimated tax regime, classification of the taxpayers of the real tax regime, reform of tax registration procedures, simplification of accounting rules for smaller taxpayers, increasing the minimum band threshold for tax on salary, and industry-specific VAT assistance for rice and utilities.

However, according to opening remarks of H.E. Kong Vibol, Director General of the General Department of Taxation (GDT), there have been several initiatives were recently accomplished by the GDT, including:

- Removal of some taxes related to transportation;
- Completion of Cambodia's first Double Tax Agreement with Singapore, with assistance from the United States Treasury Department in its implementation;
- An exemption of transfer tax between relatives;
- Establishment of a Committee of Tax Arbitration (CTA); and
- A street survey, beginning in August 2016, to verify the tax compliance of businesses within Phnom Penh and the rest of Cambodia.<sup>17</sup>

The Department's additional investments in enhanced technical solutions include the following:

- Availability of online registration and online payment options;
- Professionalization of counter services within GDT headquarters;
- A new database to manage property tax collection with values programmed;
- New smartphone apps to help users manage Tax on Salary and vehicle taxes;
- E-reports to evaluate the performance of GDT staff; and
- A single invoicing system to ensure transparency and remove opportunity for bargaining.<sup>18</sup>

### 5.2. Tax Registration

Following the registration at the Ministry of Commerce (MoC) or/and other relevant ministries, all taxpayers shall be obligated to register with the tax administration within 15 days of starting business activity. Prior to 2016, the taxpayers in the Kingdom of Cambodia were divided into two categories - the estimated regime taxpayers and the real regime taxpayers (commonly referred to as the self-assessment regime taxpayers). The estimated regime taxpayers referred to those who are smaller taxpayers beside the self-assessment taxpayers on which the taxes are officially determined for a certain period during the calendar year. The self-assessment taxpayers referred to those that have their annual turnover exceed Khmer Riel ("KHR") 500 million (USD125,000) in case of the supply of

---

<sup>16</sup> All tax revenues are used for defense and development, more information, available at:

<http://bit.ly/2hk0wqD>.

<sup>17</sup> Opening Remarks of H.E. Mr. Kong Vibol, Director –General of the General Department of Taxation, 30 September 2016, EuroCham, available at: <http://bit.ly/2hnxp64>.

<sup>18</sup> *Id.*

goods, KHR250 million (USD62,500.0) in case of the supply of services, and KHR125 million (USD31,250) in case of taxable turnover generating from the government contracts.<sup>19</sup>

However, under the recently passed Law on Financial Management 2016, (Royal Kram No. NS/RK/1215/016), there is a significant change in the Law on Taxation.<sup>20</sup> The Estimated Regime of Taxation has been abolished, and those enterprises whose annual turnover is lower than an average KHR250 million, will not be required to pay any tax. Those who have an annual turnover that exceeds approximately KHR250 million will now be required to charge VAT, file monthly and annual tax returns, collect and pay certain withholding taxes, and be subjected to tax audits. At the same time, the new law also has a revision of the real regime by classifying it into three types, namely small, medium and large taxpayers.

- Small Taxpayers: the enterprises that have annual turnover from KHR250 million (USD62,500) to KHR700 million (USD175,000);
- Medium Taxpayers: the enterprises that have annual turnover from KHR700 million (USD175,000) to KHR2,000.0 million (USD500,000);
- Large Taxpayers: the enterprises that have annual turnover over KHR20 million (USD500,000) or that have registered as a qualified investment project .

All local and foreign businesses in the Kingdom of Cambodia are subject to the same obligation and shall comply with the tax provisions possessed in the Accounting Acts and Law, including:

- Preparing and paying monthly and annual tax returns and payments such as:
  - Prepayment of Tax on Profit;
  - Withholding Tax;
  - VAT;
  - Tax on salary and Tax on Fringe Benefit; and
  - Annual Tax on Profit.
- Tax Audit (desk, limited and comprehensive).
- Following the taxpayer obligations as determined in the tax regulations including maintenance of accounting records.

### 5.2.1. Small Taxpayers

#### *Registration Process*

After registering with Ministry of Commerce or competent ministries or institutions, the small taxpayer applicant must register with the nearest tax administration office to their enterprise. The registration with the tax administration must be completed within 15 days of commencing business activity, otherwise the applicant will receive a penalty. The applicant goes to General Department of Taxation's ("GDT") office directly or to the GDT's website to obtain the Application Form for tax registration. The applicant will then need to:

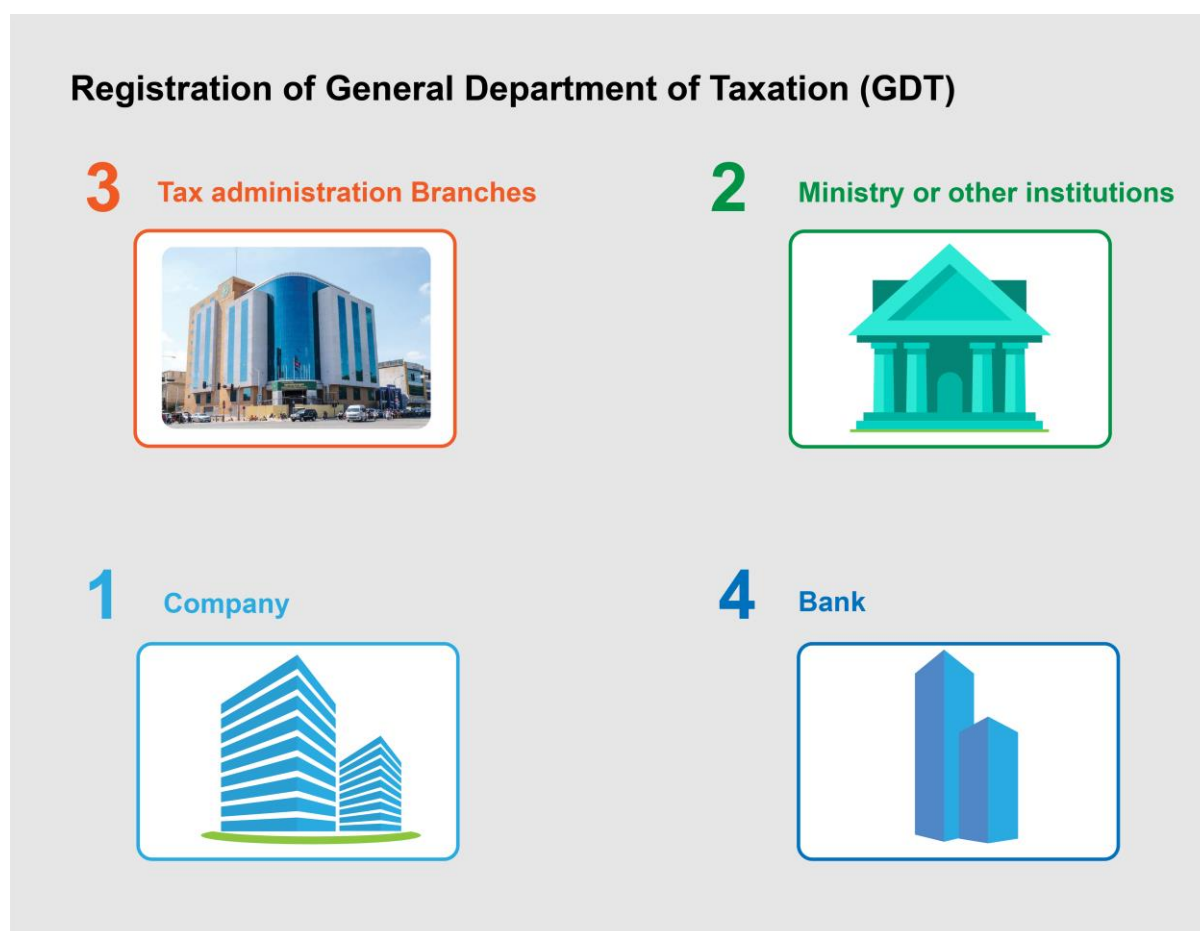
- Step 1: Complete the Application Form;

<sup>19</sup> The procedure and process of tax registration are cited from an interview is made to the General Director of the General Department of Taxation, available at: <http://bit.ly/2hk0wqD>.

<sup>20</sup> Law on Financial Management 2016, Royal Kram No. NS/RK/1215/06, dated 17 December 2015.

- Step 2: Submit filled application form to GDT with following copies:<sup>21</sup>
  - Document issued by MoC or other competent ministries / institution (if any)
  - Cambodian identification card or passport
  - A current photo with size 35 x 45 mm of business owners
  - Certificate of title or location rental contract (If any)
  - Property tax receipt (If any)
  - Letter issued by competent ministries or institutions (If any)
- Step 3: Pay patent tax and registration tax at bank upon receiving VAT TIN from GDT; and<sup>22</sup>
- Step 4: Submit the receipt of patent tax and registration tax, which is issued by the bank, to tax official so s/he completes the application process.

Figure 2: Tax Registration Process



(Source: General Department of Taxation)

### **Registration Cost**

In step 3, the small taxpayer applicant is required to pay the following fees and taxes:

- Fee for tax registration: KHR20,000 (USD5);

<sup>21</sup> All copied documents attached must be certified by tax official in charge or by other ministries / institutions

<sup>22</sup> There are five financial institutions are authorized to collect payments for GDT and the General Department of Customs and Excise (GDCE), those are Acleda Bank, Canadia Bank, Cambodian Public Bank, Vattanac Bank (will be effective from early 2017) and Wing (Cambodia) Limited Specialized Bank.

- Registration Tax: KHR1 million (USD250) and
- Patent Tax: KHR400,000 (USD100)

### *Obligation of Small Taxpayers*

All small taxpayers are obligated to fulfill the following responsibilities:

- **Monthly obligation:** prepare simplified accounting records (sale record, expense record, and inventory) and pay prepayment of profit tax, salary tax, tax on accommodation and 20% of VAT's value.<sup>23</sup>
- **Yearly obligation:** the small taxpayers are obligated to:
  - file annual profit tax return with GDT by the end of March after fiscal year end and
  - file the return and pay the patent tax every year by the end of March.

## 5.2.2. Medium and Large Taxpayers

### *Registration Process*

Similar to the small taxpayers, medium and large taxpayer applicants are required to register with the tax administration within 15 days of commencing business activities. The applicant may go the GDT directly or GDT's website to obtain the application form for tax registration. The applicant then must:

- Step 1: Complete the Application Form;<sup>24</sup>
- Step 2: Submit filled application form to GDT with following copies:<sup>25</sup>
  - Document issued by MoC or other ministries / institution (if any) – original
  - Company's memorandum and articles of association – original
  - Bank certified letter of capital deposit
  - Cambodian identification card or passport
  - Family record book or residence book
  - Residency letters issued by local authority – original
  - A current photo with size 35 x 45 mm of board of directors, shareholders or representatives certified by chairperson of board of directors – original
  - Certificate of title or location rental contract
  - Property tax return or invoices (If any)
  - Certificate issued by Cambodia investment board or special economic zone board or sub-committee on investment of the provinces-municipalities (Qualified Investment Projects) QIP
  - Letter issued by competent ministries or institutions (if any)
- Step 3: Pay patent tax and registration tax at bank upon receiving VAT TIN from GDT; and
- Step 4: Submit the receipt of patent tax and registration tax, which is issued by the bank, to tax official so s/he completes the application process.

---

<sup>23</sup> It is a special case for small taxpayers and they are liable to pay only 20% of the VAT value to the government.

<sup>24</sup> See how to complete the application form, please visit : <https://www.youtube.com/watch?v=ufNp2frmklg>

<sup>25</sup> All copied documents attached must be certified by tax official in charge or by other ministries/ institutions.

**Registration Cost**

Medium and large taxpayer applicants must complete the following payments:

- Fee for tax registration: KHR400,000 (USD100)
- Registration tax: KHR1 million (USD250)
- Patent tax: KHR1,200,000 (USD300) for medium taxpayers and between KHR3,000,000 (USD750) and KHR5,000,000 (USD1,250) for large taxpayers.

**Obligation of Medium and Large Taxpayers**

All taxpayers are obligated to file a tax return even if they do not have a reportable transaction in the designated month or year and did not pay monthly or annual taxes:

- **Monthly obligation:** prepayment of profit tax, withholding tax, salary tax, tax on accommodation, VAT and other specific taxes in term of additional profit tax on dividend distribution and merchandise and service.
- **Yearly obligation:** medium and large taxpayers are obligated to:
  - file annual profit tax return with GDT by the end of March after fiscal year end, and
  - file the return and pay the patent tax every year by the end of March.

**5.3. The Most Recent Progresses from the GDT****5.3.1 Abolishment of Withholding Tax on Fringe Benefit for All Businesses**

On 6 October 2016, the Ministry of Economy and Finance (“MEF”) issued Circular No. 011 MEF entitled “The implementation of Withholding Tax on Fringe Benefits.” The circular applies to all businesses and describes certain cash or in-kind employee benefits that are not subject to Fringe Benefit Tax.<sup>26</sup>

**5.3.2 Visiting All Enterprises (registered and non-registered) in Cambodia**

As a part of its reform, the MEF issued a notification no. 039, dated 21 July 2016 on the Visit to Enterprises to collect business’ information in Phnom Penh in order to justify tax registration.<sup>27</sup> In August 2016, the Visit to Enterprises, or street survey began in Phnom Penh.<sup>28</sup> The survey assesses the enterprise’s statistics, determines whether the business has complied with the “Re-Registration” obligation pursuant to Prakas No. 49 on Tax Registration, ensures that each business has fulfilled its obligations, and raises all necessary related questions. Prior to the visit, all business owners are notified in order to prepare the necessary documents.<sup>29</sup>

**5.3.3 Revision of Minimum Salary Tax Threshold**

The minimum salary tax threshold was revised from KHR800,000 (USD200) to KHR1,000,001 (USD250 approximately) effective beginning in January 2017. Therefore, those whose salary is KHR1,000,001

---

<sup>26</sup> VDB/Loi, Cambodia Tax Update: Latest Development in Fringe Benefit Tax, available at: <http://bit.ly/2gC4IsD>.

<sup>27</sup> Sciaroni & Associates, Notification no. 039, on the GDT visiting enterprise to collect information, November 8, 2016, available at: <http://bit.ly/2gPQNIO>.

<sup>28</sup> Opening Remarks of H.E. Mr. Kong Vibol, Director –General of the General Department of Taxation, 30 September 2016, EuroCham, available at: <http://bit.ly/2hnxp64>.

<sup>29</sup> Sciaroni & Associates, Notification no. 039, on the GDT visiting enterprise to collect information, November 8, 2016, available at: <http://bit.ly/2gPQNIO>.

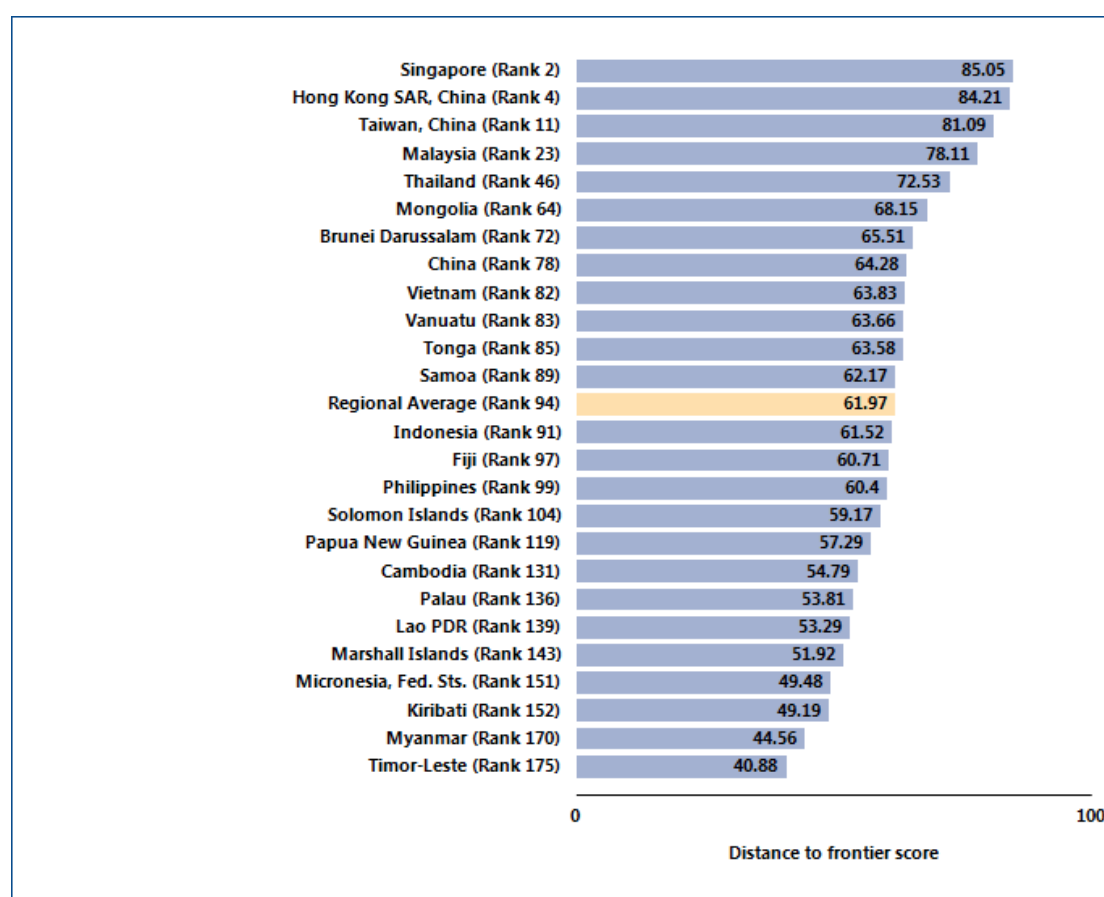
will be obligated to the salary tax. A salary below KHR1,000,001 will not be obligated to pay the salary tax.<sup>30</sup>

## 6. Tax Environment from Anti-Corruption Perspective

### 6.1 Perspective from Taxpayer Compliance Companies

Cambodia is ranked 131 and 180 out of 190 economies surveyed for ease of doing business and starting a business, respectively, which are illustrated in figure 3 and figure 4. The ranking for “ease of doing business” is based on the life cycle of a business, such as starting a business, submitting and approval of construction permits, installing electricity, registering property, protecting minority investors, paying taxes, trading across borders, enforcing contracts, resolving insolvency, and labor market regulation.<sup>31</sup>

Figure 3: How economies in East Asia and the Pacific (EAP) rank on the ease of doing business

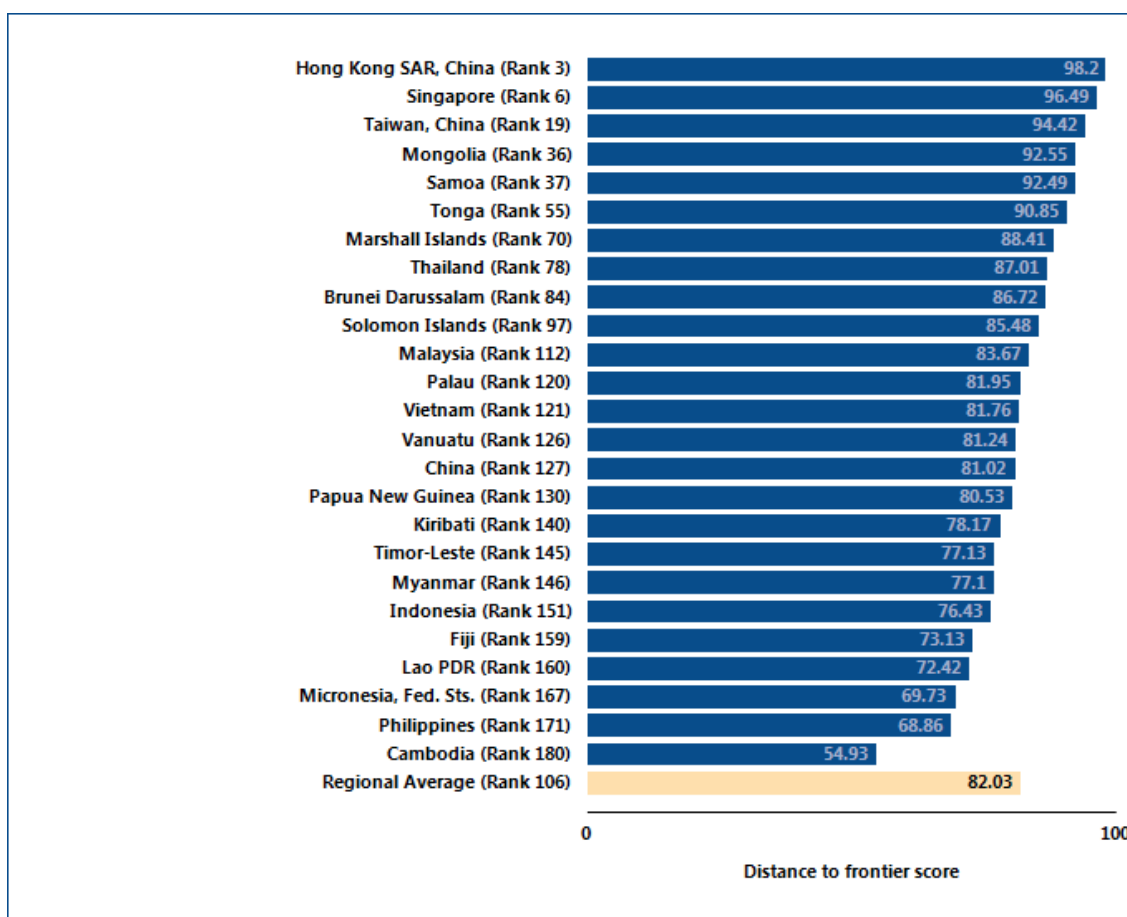


(Source: Doing Business 2017, World Bank)

Figure 4: How economies in East Asia and the Pacific (EAP) rank on the ease of starting a business

<sup>30</sup> Kali Kotoski, “Income-tax threshold to rise,” *The Phnom Penh Post*, 1 November 2016, available at: <http://bit.ly/2gqJ6GT>.

<sup>31</sup> World Bank Group, *Doing Business 2017*, World Bank Group Flagship Report 14<sup>th</sup> Ed., available at: <http://bit.ly/2eCMkup>.



(Source: Doing Business 2017, World Bank)

However, all respondents interviewed noticed a large change in the process of starting a business in Cambodia, especially, the tax registration compared to previous years. The registration and typical licensing processes are straightforward and can be efficiently completed compared to past decades. There are no restrictions on sectors open for business and investment. In registering a new business, the business is required to apply to at least five different institutions, namely: (i) Ministry of Commerce (MoC), (ii) General Department of Taxation (GDT), (iii) Ministry of Labor and Vocational Training (MLVT), (iv) Bank and (v) National Social Security Fund (NSSF) – any enterprises that has eight or more employees are required to register with the NSSF.<sup>32</sup>

Within the GDT, all companies are subject to the same taxation system - the self-assessment regime, which is classified into three categories – small taxpayers, medium taxpayers and large taxpayers. The registration is simplified and is available online - all registered information will be automatically centralized and synchronized to the GDT's data center.

Since the beginning of 2016, all respondents have noticed significant changes in the tax system following the in-depth reform conducted by the GDT. In general, it is seen as a large step in combatting

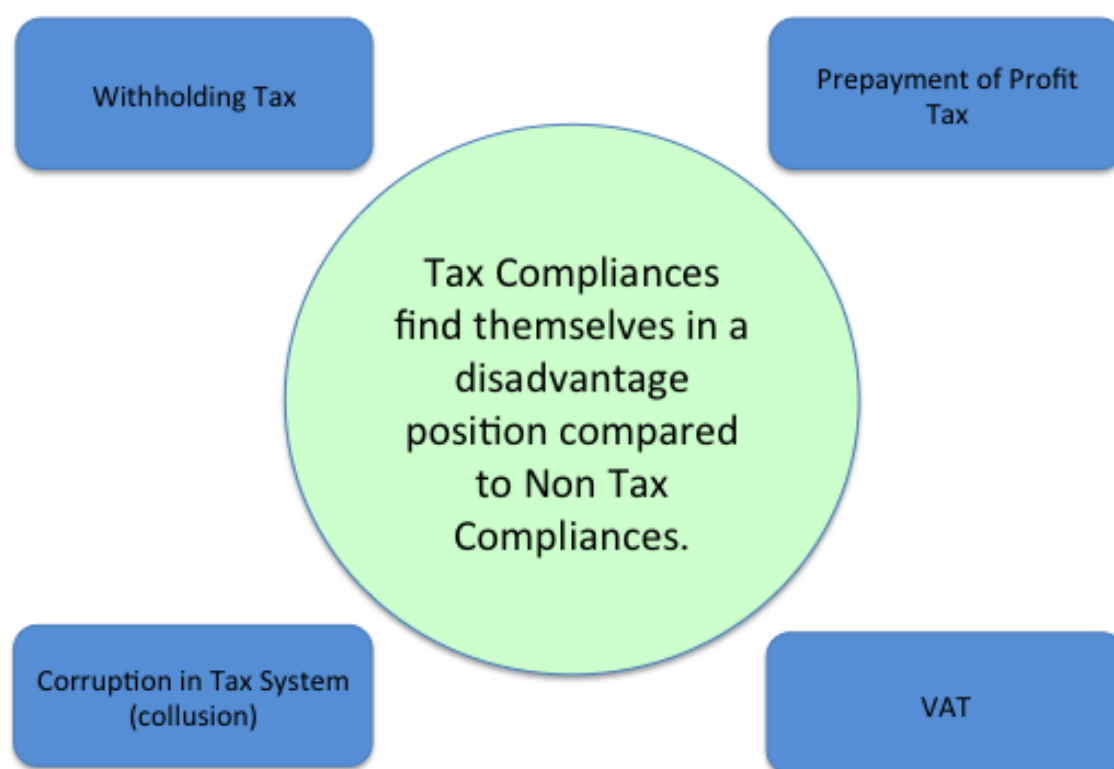
<sup>32</sup> All businesses are basically required to register with at least 5 institutions, however, not all of them have followed the requirement. Please visit to following link for information was collected as part of the Doing Business project that is conducted by the World Bank, <http://bit.ly/2heABmC>.



corruption in the tax system in Cambodia. Almost all companies acknowledged that the recent reform has reduced a lot of the corrupt practices, which normally occurred in the process of: (i) tax registration, (ii) filing monthly tax return, (iii) renewal of patent certificate and (iv) filing annual tax return. In particular, the most significant change in the tax reform is the abolishment of the estimated regime from the tax system - a great benefit to all small businesses, whose annual turnover is less than KHR250 million (USD62,500).

According to the survey results, respondents sometimes found themselves at a disadvantage compared to those who are non-compliant, particularly in honoring tax obligations that ultimately affect their competitiveness and create additional financial burdens, including the (i) withholding tax, (ii) VAT (10%), (iii) prepayment of Tax on Profit (ToP) and corruption in the tax system. These obligations are summarized in figure 4 below.

Figure 5: Factors are likely to upset the tax compliance



### ***Withholding Tax***

According to the Law on Taxation, tax compliant companies that engage with payments for services rendered with individuals or companies that are not able to give a valid VAT receipt are required to withhold a proportion of the agreed payment from the service provider and to pay this proportion as a withholding tax, which is generally set at 15%.<sup>33</sup> As a consequence, this payment has put tax compliant companies at a disadvantaged position compared with those who are not tax compliant,

<sup>33</sup> Law on Taxation, January 2004, Article 25, available at: <http://bit.ly/2hDdChV>.

because non-tax compliant companies will not pay a withholding tax. Almost all of the respondents surveyed recommended abolishing the withholding tax.

### ***VAT***

All products and services rendered inside of the Kingdom of Cambodia are subject to a VAT rate of 10%. The VAT is indeed an obligation to the end consumer to pay, but it is practically collected through the companies who supply the products and services. The 10% VAT rate has become a financial burden on the sales price for tax compliant companies; consequently, it is challenging for tax-compliant companies to compete on price with those who are not tax-compliant. There is an exemption under the law for small enterprises who are only required to pay a 20% total VAT rate, rather than a 10% rate on individual products and services.

### ***Prepayment of Profit Tax***

In addition, a company liable to the profit taxes including a Qualified Investment Project is liable to the profit tax at the rate of 9 percent, has the obligation to pay a monthly prepayment of profit tax at the rate of 1 percent of monthly turnover inclusive of all taxes, except VAT. It has become an issue for the taxpayers having trouble with cash flow and it is suggested that the law should be revised to pay a monthly tax return, rather than an annual tax return.

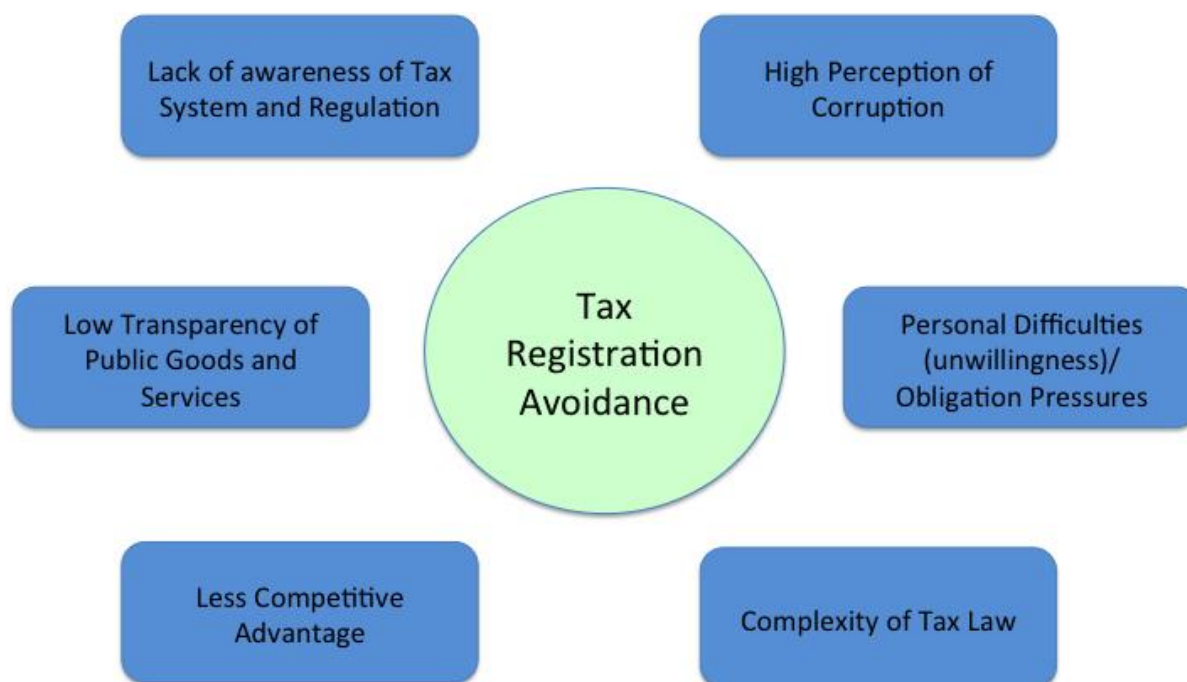
### ***Corruption in Tax System***

Some respondents acknowledged that while corruption still exists in the tax system, it is also difficult to define and nearly impossible to identify, largely because the collusion between the taxpayers and tax officials occurs in secrecy. In addition, many other factors contribute to corruption, including complexity of tax laws, the privileged role of the tax official and habit of informal payment, and the overall environment of the public sector. These factors have contributed to the existing culture of corruption in the tax system.

## **6.2 Perspective from Non-Taxpayer Compliance Company**

Paying taxes is an obligation for all citizens in the country, but not all of them are willing to fulfill their obligation. By and large, the concept of taxation is a concern for many citizens and businesses in Cambodia due to obligations to pay taxes, engaging with tax officials and navigating many other tax-related issues. Beside the tax obligations, there are also barriers that hinder them from registering with the tax administrations, namely: lack of awareness of the tax system and regulations, high perception of corruption, less competitive advantage, complexity of the tax law, personal difficulties/work pressure and low transparency of public goods and service. All these factors are summarized in Figure 6 below.

Figure 6: Factors to hinder some companies from registering with the tax administration



### 6.2.1. Lack of Awareness of Tax System and Regulation

All respondents acknowledged that taxation is a major source of funds for the government and these funds are used to provide basic needs of a citizen in term of safety, protection, peace, and social order, however none of them are well aware of how the tax system and tax regulation actually operates in Cambodia. They also consider taxation to be a financial burden. As a consequence, the majority of them do not register their business with the tax administration.

### 6.2.2 High Perception of Corruption

As mentioned earlier, Cambodia is perceived as the most corrupt country in the world; therefore, some members of the business community cannot be certain whether their paid taxes will actually be used to finance public goods and services and it becomes more likely that they will try to evade their tax responsibilities. A company might consider non-tax registration if the cost of bribing a tax official is lower than the potential benefits from being a tax-compliant company.

### 6.2.3 Less Competitive Advantage

According to respondents, the tax system often puts them at a competitively disadvantaged position if their business is registered with the GDT, because they are liable to pay VAT (10%), withholding tax, prepayment of profit tax, tax on profit and other administrative expenses during and after the registration process.

### 6.2.4 Complexity of Tax Law

The complexity of the tax law and accompanying regulations also has led to a delay or ignorance for respondents in completing their tax registration. In discussing the tax law and regulations, members of the business community were concerned with engaging with tax officials and understanding tax regulations.

### 6.2.5 Personal Difficulties/Obligation Pressures

Personal difficulties, lack of will, and work pressures are more likely to hinder a taxpayer from completing the tax registration with GDT, because of the encumbrances related to registration. Specifically, respondents were concerned with preparing financial reports, paying prepayment of profit tax, salary tax, tax on accommodation, and 20% of the VAT amount.<sup>34</sup> Moreover, registered businesses are responsible for filing annual profit tax return and paying the patent tax every year. All these responsibilities have caused a lack of motivation for them to get involved with the tax administration.

### 6.2.6 Low Transparency of Public Goods and Services

Lack of transparency in the use of public funds has led to public distrust with regard to the tax system and the government as a whole. Funds used to build roads, bridges, schools, and hospital buildings are perceived to be poorly managed. As a consequence, a large number of small businesses are not willing to have their business registered at GDT or with other competent institutions.

## 7. Causes of Corruption and Its Impact on Tax System

### 7.1. Causes of Corruption

Corruption has obstructed the tax collection process in Cambodia for decades. According to a 2016 World Bank survey, 58.7 percent of companies expect to give gifts or informal fees in meeting with tax officials.<sup>35</sup> Furthermore, based on the 2015 Corruption Perceptions Index (CPI), Cambodia is scored at 21 out of 100, thus showing that despite some improvement and reforms in some specific sectors, the public perception of the private sector remains low.<sup>36</sup>

Among the 12 companies surveyed, a variety of factors were considered more likely to expose corrupt practices in the tax system, including:

- The complexity of Tax Laws;
- The monopoly power of tax officials;
- Mutual benefit;
- Patronage system;
- The habit of facilitation payment by individuals in the private sector to public officials; and
- The overall environment of public administration

#### 7.1.1. Complexity of Tax Law

The survey reveals that the complexity of tax law and procedures increases the potential risk of corruption in the tax system, in particular, the audit process. The lack of essential information makes taxpayers unaware of their obligations and more exposed to exploitation. Meanwhile, tax evasion and tax avoidance are more likely to occur in a highly corrupt environment. It has also encourages the

---

<sup>34</sup> In general, the supply of goods or services to local markets shall be subject to VAT of 10%, but there is an exception for small taxpayers. Small taxpayers are required to pay only 20% out of the total VAT amount.

<sup>35</sup> The World Bank, Enterprise Surveys, Cambodia Country Profile, 2016, available at: <http://bit.ly/2hDrzfy>.

<sup>36</sup> Transparency International, Corruption Measurement Tool, 2015, available at: <http://bit.ly/2gCl7qN>.

majority of taxpayers not to engage with the GDT or tax officials directly, but to work through a tax intermediary, for instance a tax consultant.

Beside the complexity of tax laws, ignorance and unwillingness to learn are also considered contributing factors to corruption in the private sector. Ignorant taxpayers are particularly vulnerable to corrupt officials and their middlemen who mislead them by purposefully incorrectly explaining tax procedures.

### **7.1.2. Monopoly Power of Tax Officials**

Aside from the so-called tax collectors, tax officials are also perceived to be tax problem scrutinizers, largely because of their privileged role in the tax system. This monopolized and pressured environment provides the tax officials with opportunities to induce taxpayers in corrupt practices by paying an informal fee. The larger the decision, the greater the opportunity for tax officials to abuse their power and require an informal fee, in order to give a favorable interpretation of tax regulation to the business.

### **7.1.3. Mutual Benefit**

An objective to maximize profits and minimize costs is quite common for all businesses; however, some companies try to bribe officials to accept under-valued tax amount payments. Consequently, taxpayers and tax officials benefit and tax compliant companies are disadvantaged.

### **7.1.4. Patronage System**

Patronage in the tax system increases opportunity for tax evasion and corruption. The patronage system that exists in Cambodia is a large concern for those who follow the tax regulation, especially, for foreign companies. Foreign companies sometimes find themselves in a disadvantaged position compared to other companies who can operate well in a culture of patronage. The patronage system is more likely to occur in the timber business, manufacturing business, and public construction.

### **7.1.5 Habits of Facilitation Payment**

In the survey, some respondents indicated that there are a number of individuals still maintaining the habit of facilitation payments, even though they are not pressured to do so. This habit normally occurs at the time of filing their monthly and annual tax return.

### **7.1.6. Overall Environment in the Public Administration**

Corruption in public administration is perceived as a way of life and it continues to be systematic in Cambodia. People in public life normally provide support for corruption and “dirty money.” Ultimately, the lack of accountability and transparency from public service providers has led to poor quality of public goods and services.

## **7.2. Impact of Corruption on Tax System**

Corruption is a major factor contributing to a reduction in the Cambodian government tax revenues, forcing the RGC to find other financial sources for its expenditures such as borrowing from other nations, including, China. Lack of government funds, undermines the political stability of a country, by provoking social chaos. The impact of corruption to a country can cost its citizens to – lose their trust in democracy, their leaders, institutions, fellow Cambodians, trade and investment, administrative efficiency, good governance and citizen equality.

The often secret cooperation between corrupt taxpayers and tax officials has put honest taxpayers at

a disadvantage, encouraging them to explore alternative ways to survive, namely tax evasion and other corrupt practices, ultimately causing a cyclical effect. Beside the impact on tax-registered companies, corruption also deters non-registered businesses from following tax regulations, largely because they are concerned about paying bribes to tax officials.

## 8. Conclusion and Recommendations

In an effort to create a more competitive business environment, the RGC removed the estimated tax regime in favor of a streamlined, consistent and transparent tax system. The reform frameworks are highly appreciated and welcomed by the vast majority of members of the business community. Almost all respondents acknowledged that the RGC has promoted a better business environment for them through the improvement of: (i) the tax registration procedure; (ii) the monthly tax return procedure; (iii) the yearly tax return procedure; (iv) the patent tax renewal procedure, and (v) the tax audit procedure and management. The RGC's exception for the small business VAT requirement is perceived to be fundamental to small-scale business growth. Despite these improvements, Cambodia still has much more that must be done in order to foster a more favorable and competitive environment for business growth. In particular, TI Cambodia makes the following recommendations to the Royal Government of Cambodia:

### *Recommendations for the Royal Government of Cambodia:*

1. Taxpayer education and assistance programs - the law on taxation should be more widely promoted, especially to small taxpayers and non-compliant companies. The GDT should also continue to update the public on its reform work and changes to the law;
2. Stronger Leadership - it is important for the leaders in the public sector to lead by example, and display a strong work ethic and fairness when s/he comes to dealing with staff and people;
3. Increased transparency by the Ministry of Economy and Finance and the General Department of Taxation-regarding their meetings on reforms and other progresses
4. Establish an effective taxation administrative office-with adequate human resources, accountability and responsibility in order to answer all tax-related questions and interpret tax procedures and laws.
5. **Develop a reasonable incentive system for private sector companies to encourage other companies to become tax compliant.**
6. **Abolish the Withholding Tax.**
7. **Government should allocate time (two or three years) for small taxpayers to prepare themselves to be compliant with changes in the tax regulation. This should be a two-step process where they are required to register with the GDT first, but then are not required to make any tax payment during the first two or three years.**
8. **Encourage companies to adopt CIS within their companies and provide more awareness on the benefits of being compliant.**

### *Recommendations for the private sector:*

1. Increased coordination to discuss and raise awareness about changes in the tax law.
2. Increased advocacy efforts for legislation or regulations that would help to clarify the tax system further and dispel corruption.
3. Adopt and encourage other companies to implement corporate integrity systems, including anti-bribery and anti-facilitation pacts, thereby creating a business culture that is tax compliant and corruption free.

***Recommendations for civil society:***

1. Assist in the dissemination of laws and raising awareness about changes to tax regulations.
2. Work closely with private sector to foster a business environment free of corruption.

## 9. References

Bayon Television (BTV) with H.E. Kong Vibol, Director General of the General Department of Taxation (GDT) on June 30, 2016.

Bertelsmann Transformation Index, Cambodia Country Report, 2010, available at: <http://bit.ly/2gBxFjh>.

Bun & Associates, Introductory Guide, Taxation System in Cambodia, 2014, available at: <http://bit.ly/2gByFnm>.

DFDL, The Tax Pocket Guide to Investing in Cambodia, 2016, available for download: <http://bit.ly/2hrJlyg>.

EuroCham, White Book 2016: Trade and Investment Policy Recommendations, March 2016, available at: <http://bit.ly/2hrCA56>

Kali Kotoski, "Income-tax threshold to rise," *The Phnom Penh Post*, 1 November 2016, available at: <http://bit.ly/2ggJ6GT>.

Law on Financial Management 2016, Royal Kram No. NS/RK/1215/06, dated 17 December 2015.

Ministry of Economy and Finance, General Department of Taxation, Prepayment of Profit Tax, available at: <http://bit.ly/2hjODUp>.

Ministry of Economy and Finance, Prakas on Implementation on Value Added Tax (VAT) for supporting Industry or Contractor that Supplies Goods or Service for Serving the Export of the Garment Industry, Textile Industry, Footwear Industry, Carry-Bag and Handbag Industry and Hat Industry, Prakas No. 311 MEF. Br.K, dated March 19, 2014, available at: <http://bit.ly/2hCtxwR>.

Ministry of Economy and Finance, Prakas on Salary Tax, No. 1173, MEF PrK, dated 31 December 2003, available at: <http://bit.ly/2hCtmSn>.

Ministry of Economy and Finance, General Department of Taxation, Tax on Profit, No. 1059 MEF. PPrk.TD, dated 12 December 2003, available at: <http://bit.ly/2hjKNe0>.

Ministry of Economy and Finance, Law on Taxation, January 2004, available at: <http://bit.ly/2hDdChV>.

Sciaroni & Associates, Notification no. 039, on the GDT visiting enterprise to collect information, November 8, 2016, available at: <http://bit.ly/2gPQNI0>.

TRACE International, Inc. 2016 Trace Matrix, available at: <http://bit.ly/2htlVRw>



Transparency International, Corruption Measurement Tool, 2015, available at:

<http://bit.ly/2gCl7qN>.

Transparency International, What is Corruption? Available at: <http://bit.ly/2hk4wqT>.

VDB/Loi, Cambodia Tax Update: Latest Development in Fringe Benefit Tax, available at:

<http://bit.ly/2gC4lsD>.

World Audit 2015 Corruption Rankings, 2015, available at: <http://bit.ly/1Xow5gK>

The World Bank Group, Doing Business 2017, World Bank Group Flagship Report 14<sup>th</sup> Ed., available at: <http://bit.ly/2eCMkup>.

The World Bank Group, Economy Rankings, June 2016, available at: <http://bit.ly/K11iGM>.

The World Bank, Enterprise Surveys, Cambodia Country Profile, 2016, available at:

<http://bit.ly/2hDrzfY>.

The World Bank Group, Helping Countries Combat Corruption: The Role of the World Bank, available at: <http://bit.ly/1G8kxVo>.

Opening Remarks of H.E. Mr. Kong Vibol, Director –General of the General Department of Taxation, 30 September 2016, EuroCham, available at: <http://bit.ly/2hnxp64>.

## 10. Annexes

### Annex 1: Interview guide for Non Tax Compliant Company

#### ***Informant Summary***

- a) Name of Company:
- b) Owner/CEO/GM:
- c) Year of established:
- d) Type of business (sole proprietorship, partnership, or corporation):
- e) Capital:
- f) Type of operation (product and service):
- g) Annual turnover/revenue (roughly):

1. Do you know any information related to tax system in Cambodia?
2. How do you receive the information related to tax system?
3. Have you heard the tax reform carried out by GDT recently?
4. Have you noticed any change in the tax system in Cambodia?
5. In general, what is your perspective about the tax system in Cambodia?
6. Were there any tax officials to persuade/force you to register at tax department?
7. How did they persuade/force you?
8. Are you satisfied with the introduction and explanation made by tax official (s)?
9. Why have you not decided to register your business at tax department?
10. If you have not registered your business at tax department, are you pressured to pay the informal fee?
11. If you are pressured to pay the informal fee for having no obligation to the tax department, will you agree to pay the informal fee? How much?
12. How satisfied or dissatisfied are you with the informal fee/bribery?
13. Is there any impact of the corruption issue on your business?

14. Do you have any suggestions/recommendations to the government to change and further reform?
15. Overall, do you have any recommendations to improve tax environment in Cambodia?

#### Annex 2: Interview guide for Tax Compliant Company

##### ***Informant Summary***

- a) Name of Company:
- b) Owner/CEO/GM:
- c) Year of established:
- d) Type of business (sole proprietorship, partnership, or corporation):
- e) Capital:
- f) Type of operation (product and service):
- g) Taxpayer category:
- h) Annual turnover/revenue (roughly):

1. Why did you decide to register your business at tax department (willing or forced)?
2. How did you register at the tax department (through agent or yourself)?
3. What documents were you requested to submit (if still remember)?
4. How long did it take for the registration process (if still remember)?
5. How much did you pay?
  - a. for registration fee
  - b. for patent tax
6. What is your view about the tax system in Cambodia, in general?
7. Based on a depth reform on tax policy, tax procedure, and tax administration being currently carried out by GDT, have you noticed any changes?
8. Have you experienced any informal fee to tax officials (whilst applying for the registration, monthly declaration, Paten renewal, and annual accounting closure)?
9. How are you pressured to pay the informal fee?

10. How satisfied or dissatisfied are you with the informal fee/bribery?
11. Is there any impact of corruption issue on your business?
12. Do you have any ideas/solution to curb corruption issues in the tax system, for instance?
  - a. registration process
  - b. monthly tax declaration
  - c. patent tax renewal
  - d. annual accounting closure and
  - e. Others
13. Do you have any suggestions/recommendation to the government to change and further reform?
14. Overall, do you have any recommendations to improve tax environment in Cambodia?