

International Tax Laos Highlights 2017



Investment basics:

Currency – Lao Kip (LAK)

Foreign exchange control – Foreign enterprises may deposit both LAK and foreign currencies in their bank accounts under the enterprise's name. The Bank of Laos restricts domestic payments in foreign currencies and limits the funds exchanged from LAK to foreign currencies.

Accounting principles/financial statements – Lao Accounting System (Lao GAAP). Laos permits the use of IFRS for some domestic listed companies. Financial statements must be filed annually.

Principal business entities – These are the public/private limited company, partnership, individual enterprise (sole proprietorship) and branch of a foreign company.

Corporate taxation:

Residence – There is no general definition of residence for tax purposes in Laos. Entities incorporated under Laos law are generally taxed on their worldwide income, regardless of the source. Foreign entities carrying on a business in Laos are subject to tax on their income derived in Laos.

Basis – There are no provisions that specify whether taxation applies on a territorial or a worldwide basis.

Taxable income – Profit tax is collected from domestic and foreign businesses and is imposed on profit from all types of business activities.

Taxable income for profit tax purposes generally is calculated as net income from business activities, plus non-deductible expenses, less allowable deductions as prescribed by the tax law. Taxpayers who do not follow accounting standards or submit an incomplete tax

declaration and payment may be subject to a mandatory profit tax, which is deemed to be the annual gross profit multiplied by the profit ratio for each activity type and multiplied by the profit tax rate.

Taxation of dividends – Dividends are subject to a 10% withholding tax at the time of payment, but dividend income is not subject to profit tax.

Capital gains – Capital gains from the sale of shares (other than shares listed on the securities exchange, which are exempt from tax) are subject to income tax (rather than profit tax) at a rate of 10% on the difference between the purchase price and selling price if relevant supporting evidence can be provided; otherwise, 2% will be imposed on the selling price.

Capital gains from the sale of land and from transfers of land use rights, structures or land containing structures, other than transfers due to inheritance, are subject to income tax at a rate of 5% on the difference between the purchase price and selling price if relevant supporting evidence can be provided; otherwise, 2% will be imposed on the selling price.

Losses – Taxpayers that follow an accounting system may carry forward losses for three years if they obtain approval from the tax authorities. The carryback of losses is not permitted.

Rate – The standard profit tax rate is 24%; however, a temporary 5% reduction applies for companies that are registered on the stock market for their first four years from the date of registration.

A 26% rate applies to entities that produce, import and supply tobacco products.

A lump-sum tax applies to small and medium-sized enterprises at rates ranging from 3% to 7%, depending on the amount of income and the type of business

activity, and entities with income below LAK 12 million are exempt from profit tax.

Surtax – No

Alternative minimum tax – No

Foreign tax credit – Laos domestic law does not provide for a credit for foreign taxes; however, the tax law does provide that the tax authorities generally should resolve issues such as double taxation by crediting the relevant amounts against future tax due.

Participation exemption – No

Holding company regime – No

Incentives – Profit tax exemptions or reductions may be available for investments in certain sectors (agricultural, industrial, handicraft and service) or in designated areas.

Withholding tax:

Dividends – Dividends paid to domestic and foreign recipients are subject to a 10% withholding tax. The withholding tax rate on dividends paid to individuals or legal entities that are registered abroad may be reduced under a tax treaty.

Interest – Interest paid to domestic and foreign recipients is subject to a 10% withholding tax. However, interest earned on deposits or bonds is exempt. The withholding tax rate on interest paid to a nonresident may be reduced under a tax treaty.

Royalties – Royalties paid to a foreign recipient are subject to a 5% withholding tax, unless the rate is reduced under a tax treaty.

Technical service fees – Service fees paid to a foreign recipient are subject to a profit withholding tax ranging from 2.4% to 4.8% (depending on the type of service).

Branch remittance tax – No

Other – A Laos company must withhold profit tax from any payments to a foreign entity or individual for business activities that generated income in Laos. The rates vary depending on the activity that generated the income.

Other taxes on corporations:

Capital duty – No

Payroll tax – Tax on employment income is withheld by the employer and remitted to the tax authorities by 15th day of the following month.

Real property tax – A tax is levied on land used or held; the rate varies.

Social security – The employer must contribute to social

security at a rate of 6% of the monthly salaries of its employees, up to a maximum of LAK 120,000 per month per employee. The employee contribution is 5.5%.

Stamp duty – Document registration fees apply at varying rates.

Transfer tax – No

Other – Environmental tax is levied on entities that conduct activities that damage the environment.

Excise tax is imposed on certain products at rates ranging from 5% to 90%.

Anti-avoidance rules:

Transfer pricing – There are no transfer pricing rules.

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – The tax year generally is the calendar year, except in cases where business activities have ceased or have been sold or transferred.

Consolidated returns – Consolidated returns are not permitted; each company must file its own return.

Filing requirements – Financial statements and tax returns are due by 1 March of the year following the tax year. The taxpayer must make advance payments of profit tax on a quarterly basis, and any remaining tax due must be paid by 10 January of the following year.

Lump-sum tax for small and medium-sized businesses may be due on a monthly, quarterly, biannual or annual basis, depending on their contract with the tax authorities.

Income that is subject to income tax (rather than profit tax) generally is subject to tax at the time of the transaction. The recipient of leasing income is required to pay the tax on payments received within 10 days of the payment. Otherwise (i.e. for income including dividends, interest on loans, income from intellectual property and capital gains), the payer generally is required to withhold and pay the tax within 10 days of the transaction.

Penalties – A fine of 0.1% of the payable amount per day applies for failure to file tax returns for profit tax, withholding tax, salary income tax or value added tax purposes, and for the late payment of taxes.

Failure to file financial statements is subject to a fine of 3 million kip.

Rulings – No

Personal taxation:

Basis – There are no provisions that specify whether taxation applies on a territorial or a worldwide basis.

Residence – Residence is not defined for personal tax purposes, but an individual who resides in Laos for 180 days or more during the year is subject to tax in Laos, unless the individual is a foreigner and a specific tax treaty and anti-income tax evasion agreement applies.

Filing status – Joint filing is not permitted.

Taxable income – Employment income is subject to income tax unless otherwise exempt, while self-employment income is subject to profit tax (see "Corporate taxation," above).

Other types of income (including income from dividends, interest on loans, intellectual property, leasing and capital gains) are generally subject to income tax, unless an exemption applies.

Capital gains – Capital gains from the sale of shares (other than shares listed on the securities exchange, which are exempt from tax) are subject to income tax (rather than profit tax) at a rate of 10% on the difference between the purchase price and selling price if relevant supporting evidence can be provided; otherwise, 2% will be imposed on the selling price.

Capital gains from the sale of land and from transfers of land use rights, structures or land containing structures, other than transfers due to inheritance, are subject to income tax at a rate of 5% on the difference between the purchase price and selling price if relevant supporting evidence can be provided; otherwise, 2% will be imposed on the selling price.

Deductions and allowances – No

Rates – Monthly income of less than LAK 1 million and monthly employee social security contributions are exempt from income tax.

Employment income is subject to tax at progressive rates ranging from 0% to 24%. Other types of income are subject to income tax at the time of payment.

Other taxes on individuals:

Capital duty – No

Stamp duty – Document registration fees apply at varying rates.

Capital acquisitions tax – No

Real property tax – No

Inheritance/estate tax – No, but there is a statutory notification requirement for inheritances.

Net wealth/net worth tax – No

Social security – The employee contribution is 5.5%. The employer must contribute to social security at a rate of 6% of the monthly salaries of its employees, up to a maximum of LAK 120,000 per month per employee.

Other – Environmental tax is levied on individuals that conduct activities that damage the environment.

Compliance for individuals:

Tax year – Calendar year

Filing and payment – Generally, employers are responsible for withholding the tax due on employment income and for remitting the tax to the tax authorities on a monthly basis. Other types of income generally are subject to withholding tax, which is due within 10 days of the transaction.

Penalties – A fine of 0.1% of the payable amount per day applies to an employer for failure to file the salary income tax return, and for the late payment of taxes. An underpayment of salary income tax discovered during a tax assessment is subject to a fine of 30% of the tax payable.

Value added tax:

Taxable transactions – VAT is levied on the sale of goods and the provision of services, and on imports.

Rates – The standard rate is 10%. Certain goods and services are exempt, and a zero rate applies to exports. Service fees paid to a nonresident company are subject to a 10% VAT.

Registration – Entities subject to VAT (i.e. those that derive a minimum annual business turnover of LAK 400 million) must register with the tax authorities.

Filing and payment – For sales of goods or services, VAT is payable on a monthly basis by the 15th day of the following month. For imports, VAT must be fully paid at the time of the payment of customs duties.

Source of tax law: Tax Law 2015, Law on Value Added Tax 2014

Tax treaties: Laos has concluded ten tax treaties (i.e. Brunei, China, North Korea, South Korea, Luxembourg, Malaysia, Myanmar, Thailand, Vietnam and Russia).

Tax authorities: Tax Department of the Ministry of Finance

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