



Cambodia tax alert

Implementation of Value Added Tax on Non-taxable Supplies

Cambodia's Ministry of Economy and Finance (MEF) issued a regulation (Prakas No. 559) on 25 May 2017 that clarifies the value added tax (VAT) treatment of nontaxable supplies and provides guidance on certain outstanding issues raised by taxpayers. The regulation provides definitions of certain nontaxable supplies and offers entities providing both taxable and nontaxable supplies an option to claim a proportional input VAT credit.

Nontaxable supplies

The regulation clarifies the definitions of the following terms:

- "Primary financial service" refers to a type of financial service in which profit margins are derived from:
 - Deposit, credit or loan transactions, excluding relevant service fees for loan processing;
 - Initial public offerings of stock, trading of stock or other financial instruments and clearing and settlement services relating to the Cambodia Securities Exchange;
 - Currency exchange;
 - Security (surety); or
 - Trading of raw gold.
- "Electrical power" refers to electricity supplied for household or business consumption. The supply of electricity does not include installation services or measuring instruments.
- "Clean water" refers to clean water supplied for household or business consumption, except for the production of drinking water. Such a supply excludes the installation of pipelines and measuring instruments.

- “Unprocessed agricultural products” refers to trees, bark, leaves, flowers, fruit, nuts, roots or tubers of plants from a local plantation or agriculture, regardless of whether they have been ground, that have not yet been processed into finished goods.
- “Liquid/solid waste” refers to liquid/solid items or substances that are no longer useful or are required to be disposed.

In addition, article 5 of the regulation formalizes the additional types of supplies that are treated as nontaxable supplies (i.e. included in article 57 of Cambodia’s law on taxation) as from 1 January 2017:

- Educational services;
- Electricity and clean water;
- Unprocessed agricultural products; and
- Liquid/solid waste collection services

Previously, the MEF issued a confirmation letter to each association seeking an exemption for such supplies, which will no longer be necessary.

Input VAT credit

The new regulation permits such entities to claim a VAT credit for the taxable portion of their supplies, using the formula/pro-rata basis provided in articles 29 to 41 of the VAT sub-decree dated 24 December 1999.

Comments

It is questionable whether nontaxable supplies are limited to only the defined terms and examples mentioned above. For example, there are a number of services not specifically included in the definition of primary financial services, such as account maintenance fees, bank charges for funds transfers, etc. that are core banking services. If these services are taxable (i.e. if output VAT is imposed on the customer), under the law, the financial institution will be required to issue a VAT invoice for the services, which would create a significant compliance cost for the financial institution.

If you have any questions on this tax alert, please contact us our tax director, Ms Kimsroy CHHIV, via kchhiv@deloitte.com.

Deloitte (Cambodia) Co., Ltd.
P.O. Box 1150, Floor 8, Unit 8
#66, Preah Monivong Blvd
Sangkat Wat Phnom
Khan Duan Penh
Phnom Penh, Cambodia
www.deloitte.com/kh

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee (“DTTL”), its network of member firms, and their related entities. DTTL and each of its member firms are legally separate and independent entities. DTTL (also referred to as “Deloitte Global”) does not provide services to clients. Please see www.deloitte.com/about to learn more about our global network of member firms.

Deloitte provides audit, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients’ most complex business challenges. To learn more about how Deloitte’s approximately 245,000 professionals make an impact that matters, please connect with us on [Facebook](#), [LinkedIn](#), or [Twitter](#).

About Deloitte Southeast Asia

Deloitte Southeast Asia Ltd – a member firm of Deloitte Touche Tohmatsu Limited comprising Deloitte practices operating in Brunei, Cambodia, Guam, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam – was established to deliver measurable value to the particular demands of increasingly intra-regional and fast growing companies and enterprises.

Comprising 290 partners and over 7,400 professionals in 25 office locations, the subsidiaries and affiliates of Deloitte Southeast Asia Ltd combine their technical expertise and deep industry knowledge to deliver consistent high quality services to companies in the region.

All services are provided through the individual country practices, their subsidiaries and affiliates which are separate and independent legal entities.

About Deloitte Cambodia

In Cambodia, services are provided by Deloitte (Cambodia) Co., Ltd. and its subsidiaries and affiliates.

© 2017 Deloitte (Cambodia) Co., Ltd.