



Cambodia tax alert

Ministry clarifies conditions for exemption from minimum tax

Cambodia's Ministry of Economy and Finance (MEF) issued guidance on 4 July 2017 (Prakas 638) that clarifies the conditions that must be fulfilled for an enterprise to qualify for an exemption from the 1% minimum tax on turnover. The exemption will be available only to taxpayers that comply with stringent rules governing the maintenance of proper accounting records.

The accounting records of an enterprise will be deemed to be improperly maintained in the following cases:

- The records are not kept in accordance with the requirements of the General Department of Taxation (GDT) and the accounting standards set by the MEF (all legal entities are required to maintain accounting record in accordance with Cambodia Accounting Standards, which fully adopt International Financial Reporting Standards (IFRS) and IFRS for small and medium-sized enterprises (small taxpayers are permitted to follow the simplified accounting));
- The enterprise fails to issue proper sales invoices;
- The enterprise's actions are "serious" negligent;
- The enterprise engages in tax evasion activities; or
- Enterprises with annual turnover exceeding KHR 2 billion must have their financial statements audited by independent auditors to qualify to apply for the exemption from the minimum tax.

Taxpayers accounting records must be reviewed by the GDT before a taxpayer can claim the exemption from the minimum tax. Based on the new Prakas, accounting records will be reviewed every 2 years by a committee established by the GDT. A taxpayer may request a second review if it believes that the review is incorrect.

Comments

Registered taxpayers that maintain proper accounting records will be exempt from the minimum tax on their annual turnover, inclusive of all taxes except VAT. However, such taxpayers still are subject to the monthly Prepayment of Tax on Profit (PTOP), with any unused PTOPTOP at year-end available to be carried forward indefinitely or available for refund.

The Prakas reduced the circumstances in which an enterprise is required to have its financial statements audited by a third party with the annual turnover in excess of KHR 2 billion in order to qualify for minimum tax exemption only. Under the this Prakas doesn't override on the previous Prakas on the relevant criteria of the statutory audit requirement of satisfying two out of three criteria i.e. the enterprise had to have (i) annual turnover exceeding KHR 3 billion; (ii) total assets of more than KHR 2 billion; and/or (iii) more than 100 employees.

The new guidance is somewhat unclear as to whether the accounting records of all registered taxpayers will be reviewed, although it seems likely that the committee will only perform the review at the request of the taxpayer.

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