



Cambodia tax alert Guidance issued on tax provisions for petroleum exploitation

Cambodia's Ministry of Economy and Finance (MEF) issued guidance (Prakas 536) dated 4 June 2018 to provide further instructions on the implementation of the new tax provisions for the exploitation of petroleum resources included in the 2018 Law on Financial Management that took effect on 1 January 2018. The guidance applies retroactively from 1 January 2018 and affects legal entities and individuals that sign petroleum operation agreements with, or obtain licenses from, the Cambodian government. (The 2018 law also covers the exploitation of mineral resources, but separate guidance is expected to be issued on mineral resources.)

The MEF has provided detailed guidance and various examples that are relevant to the following topics from the 2018 Law on Financial Management:

- The 30% tax on income that applies to the net taxable profit generated from petroleum resources;
- The calculation of the excess profit ratio, based on the ratio of accumulated income over accumulated expenses, which determines the rate of the excess profit tax (ranging from 0% to 30%);
- The calculation of the maximum deductible interest expense each year, which is based on a debt-to-equity ratio of 3:1 (however, the taxpayer must withhold tax on the actual amount of interest expense paid);
- The setup of a decommissioning reserve aligned with the petroleum agreement (if the actual decommissioning expenses are over/under the amount in the reserve account, the difference will be treated as deductible or taxable, respectively);
- The determination of the depreciation methods and periods for "research, exploration and development expenditure" and "tangible and other intangible assets," using the straight-line method;
- The treatment of transfers of all or part of an interest in a petroleum resource agreement to another person or entity, in a case where there is goodwill (i.e. where the purchase price exceeds the accounting book value) or where the interest is transferred at a loss; and
- The treatment of tax losses, which may be carried forward for a maximum period of 10 years.

The guidance also covers the limitation of deductions and the tax obligations for taxpayers subject to the tax provisions for petroleum exploitation, which are similar to those that apply to other Cambodian taxpayers.

Additionally, the guidance provides that taxpayers may request approval from the tax authorities to use the English language and USD currency in their accounting records, reports and other documents that are relevant to the petroleum exploitation.

If you have any questions, or would like additional information on the topics covered in this alert, please contact:

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