



Cambodia tax alert

Lowering withholding tax on interest from overseas loans for Cambodian microfinance institutions

Cambodia's Ministry of Economy and Finance issued a new prakas No. 1129 on the implementation of withholding tax (WHT) on interest from overseas loans for local microfinance institutions (MFIs) on 27 October 2017. This prakas is enforced from the signature date and will last until the end of 2018.

According to the new Article 26 of Law on Taxation, WHT on loans from abroad borne by local MFIs will be adjusted to the following:

- MFIs are required to pay 10% WHT on interest from loans acquired from abroad.
- The remaining 4% of WHT is considered as government's responsibility to handle.

This concession is activated on payment on interest rate within 2017 and 2018, but is not applicable to any interest rate before this prakas was implemented; i.e. before 27 October 2017.

According to the new prakas, in order to receive the tax reduction, MFIs need to ensure they have the following supporting documents:

- Loan agreements which have been properly and legally certified by both parties.
- Fund transfer documents related to loan agreements.
- Proper accounting records to show that the loan has been received.

The above supporting documents are not required to be attached with declared tax returns but must be kept for future tax audit purposes.

Deloitte's views

This prakas aims to reduce the cost of loans for MFIs thus making the sector sustainable. These savings will also be channelled to their clients.

This prakas states clearly that it is applicable for MFIs a, not for all financial institution in Cambodia. If so, the ban, specialised bank and/or other credit operator are still required to withhold 14% WHT on interest payment of overseas loan.

Regarding the existing loan agreement, attorney's certification by both parties is not feasible. Hence, this provision is only applicable for a new loan. The Cambodia Microfinance Association and General Department of Taxation are working to resolve this issue.

Should you have any questions, please contact [Ms Kimsroy Chhiv](#).

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.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2017 Deloitte (Cambodia) Co., Ltd.