



Cambodia tax alert

2019 tax law amendments would distinguish between legal and “physical” persons

The draft Law on Financial Management (LOFM) for 2019, which would make certain amendments to the tax law, is being discussed by the Cambodia National Assembly and is expected to be approved before the end of December 2018. The amendments primarily aim to update the tax law to reflect that the estimated and simplified tax regimes for the tax on income (TOI) were eliminated in 2016, and to separately state the rules that apply to legal persons and “physical persons” (partnerships and sole proprietorships, which are not considered legal persons). The rules applicable to legal persons effectively would not change.

The legislation will not enter into effect until it is passed by the National Assembly and signed by the king, but the amendments are expected to apply as from 1 January 2019.

The new tax provisions will replace the articles of the existing law on taxation that deal with the tax year (article 5) and taxable income (article 7), as amended by the LOFM for 2007. The details of the new provisions are as follows:

Tax year

The amendments relating to the tax year reflect that the estimated and simplified tax regimes were eliminated, and that all legal entities are subject to the “real” or “self-declaration” regime (a regime similar to a self-assessment regime, under which taxpayers are required to calculate their taxes and submit tax returns, which may be subject to future tax audit). The amendments also will introduce a separate rule regarding the tax year of a physical person.

For a legal person, the TOI will be calculated based on the accounting result realized for the tax year (which generally is the calendar year). For a new enterprise, the calculation will be made from the start of business operations up to 31 December of the year for which the tax is calculated. If multiple accounting periods are drawn up during the same year, the results of these accounting periods will be added together to form a single TOI base. An enterprise managed by a non-resident legal person will be able to request approval from the Cambodian authorities to adopt a tax year that is different from the calendar year.

For a physical person, the TOI will be calculated based on the total income generated for the calendar year.

Taxable income

The amendments to the taxable income article will introduce a separate rule for calculating taxable income for physical persons. Taxable income for legal or physical persons will be the net income generated from core business operations and non-core business operations of the legal or physical person. Taxable income will include capital gains, interest, rental income, royalties and income from financial or investment assets, including immovable property.

For a legal person, taxable income will be calculated by applying tax adjustments to the accounting result, in accordance with other provisions stated in the existing tax law.

For a physical person, taxable income will be calculated as total income, reduced by all deductible expenses and other allowances determined by Royal Decree. A new Royal Decree is expected to be issued in line with this provision.

The rules and procedures on tax collection will be determined by guidance (a prakas) from the Ministry of Economy and Finance. A prakas currently is in place regarding the TOI for legal persons, but a separate prakas is expected to be issued for physical persons.

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

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