



Cambodia Tax Alert

Guidance issued on income and expense allocation among related parties

Greetings from your Tax & Legal team at Deloitte Cambodia.

We are pleased to update you on the following:

The Cambodia Ministry of Economy and Finance (MEF) issued Prakas No. 574 dated 19 September 2024 to provide guidance on the allocation of income and expenses among related parties. The Prakas No. 574 will be effective as from 1 January 2025 and will replace the previous Prakas No. 986 dated 10 October 2017. Other regulations contrary to Prakas No. 574 will be considered repealed.

Arm's length range

The transfer price of controlled transactions will not be adjusted if the relevant financial indicators fall within the arm's length range using appropriate transfer pricing methods. However, if the financial indicators fall outside the arm's length range, an adjustment will have to be made to the median of that range, but only if the adjustment does not result in a tax reduction or loss.

Documentation

In addition to current transfer pricing documentation requirements, the new guidance provides for the following additional requirements:

- Previous year transfer pricing documentation may be used to prepare current year documentation if there is no significant change in controlled transactions or comparability, which could affect the selected transfer pricing method, but financial indicators for comparables must be prepared annually.
- Loan transactions from related parties will be exempted from the arm's length principle if the taxpayer has documentation related to interest as described in Instruction No. 10979 dated 25 May 2022 issued by the General Department of Taxation. More specifically, a resident taxpayer, other than a bank or financial institution, will be exempted from the arm's length principle and will not be required to prepare documents related to interest if it is either:
 - An enterprise incorporated for less than three taxable years from the date of tax registration;
 - A single-member private limited company entering into a loan transaction with a shareholder and the loan has a balance in any period of less than KHR 3 billion (approximately USD 750,000); or
 - A sole proprietorship entering into a loan transaction with the entity's owner, spouse, or dependent children.
- Taxpayers will be exempted from preparing transfer pricing documentation (i.e., information about (i) the enterprise and related parties, (ii) transactions, and (iii) transfer pricing methods) for any taxable year if they meet both of the following criteria:
 - Annual turnover of less than KHR 8 billion (approximately USD 2 million) and total assets of less than KHR 4 billion (approximately USD 1 million); and
 - Related party transactions of less than KHR1 billion (approximately USD 250,000) for goods, assets, services, or royalties, as well as other types of transactions other than loan transactions.

Attribution of profits to a permanent establishment (PE)

If a nonresident taxpayer has a PE in Cambodia, the Cambodian taxpayer will have to allocate gross income, any deductible amount, or other benefits to properly reflect the income of the PE and the nonresident taxpayer. Taxable income allocated to the PE and the nonresident taxpayer will be treated as the taxable income of a separate and independent enterprise.

Deloitte Cambodia comments

Taxpayers should review their related party transactions to determine whether they could be exempted from the transfer pricing documentation requirement as from 1 January 2025. However, even in that case, supporting documents (i.e., agreements, invoices, payment receipts, bank transfers, etc.) should still be maintained. In addition, if a transfer pricing adjustment to the median is required, taxpayers should carefully review it to make sure it does not reduce or eliminate the tax paid or payable.

Contacts

Should you have any comments or questions arising from this newsletter, please contact the Deloitte Cambodia tax team below.

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