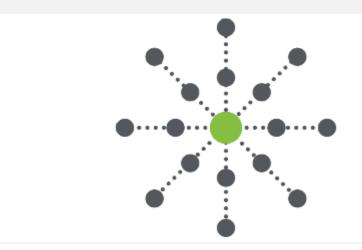
Deloitte.

Cambodia | Tax and Advisory Services | 27 June 2018



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:

Ms Kimsroy CHHIV Partner, Deloitte Cambodia kchhiv@deloitte.com



Recognised as Asia Indirect Tax Firm, Asia Tax Technology Firm, and Asia Transfer Pricing Firm of the Year 2018 by International Tax Review.

Deloitte | Add Deloitte as a safe sender

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

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 <u>www.deloitte.com/about</u> to learn more about our global network of member firms.

Deloitte provides audit, consulting, financial advisory, risk advisory, tax and related services to public and private clients spanning multiple industries. Deloitte serves four out of five Fortune Global 500® companies through a globally connected network of member firms in more than 150 countries and territories bringing world-class capabilities, insights, and high-quality service to address clients' most complex business challenges. To learn more about how Deloitte's approximately 264,000 professionals make an impact that matters, please connect with us on Facebook, LinkedIn, or Twitter.

About Deloitte Southeast Asia

Deloitte Southeast Asia Ltd – a member firm of Deloitte Touche Tohmatsu Limited comprising Deloitte practices operating in Brunei, Cambodia, Guam, Indonesia, Lao PDR, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam – was established to deliver measurable value to the particular demands of increasingly intra-regional and fast growing companies and enterprises.

Comprising 340 partners and over 8,800 professionals in 25 office locations, the subsidiaries and affiliates of Deloitte Southeast Asia Ltd combine their technical expertise and deep industry knowledge to deliver consistent high quality services to companies in the region.

All services are provided through the individual country practices, their subsidiaries and affiliates which are separate and independent legal entities.

About Deloitte Cambodia

In Cambodia, services are provided by Deloitte (Cambodia) Co., Ltd. and its subsidiaries and affiliates.

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.

© 2018 Deloitte (Cambodia) Co., Ltd.