



Cambodia Tax Alert

Sub-decree on the implementation of Law on Investment

Greetings from your Tax & Legal team at Deloitte Cambodia.

We are pleased to update you on the following:

The Royal Government of Cambodia adopted sub-decree on the implementation of Law on Investment

Sub-decree 139 on the implementation of Cambodia's Law on Investment (LOI) was promulgated on 26 June 2023. Below is a summary of the key updates set out in the sub-decree with respect to all qualified investment projects (QIPs) registered with the Council for the Development of Cambodia (CDC) or the city or provincial sub-investment committee, including:

- Export QIPs, which sell products to overseas customers;
- Supporting-industry QIPs, which supply products to the export industry;
- Local market QIPs, which do not export;
- Expansion of QIP, including existing production, diversification of products in the same product line, and installation of new advanced technologies that enhance the production or protect the environment; and
- Guarantee investment projects, which do not receive tax incentives.

Online registration

QIPs may register investment projects online. Details about the registration process are provided in sub-decree 139.

Investment incentives for QIPs in each investor group

The government provided detailed incentives and guidelines for QIPs in sub-decree 139, categorising groups of investors precisely and clearly in annex 2-4

and indicating the incentives granted to each category. The table below summarises those incentives:

Type of tax	QIP for groups 1, 2, and 3	Expansion of QIP**	Local market QIP	Guarantee investment project
Option 1 for QIP for groups 1, 2, and 3				
Tax on Income (TOI) exemption	Based on group (9 years for group 1, 6 years for group 2, and 3 years for group 3)	Same as groups 1, 2, and 3 Taxable income exempted from TOI = Total taxable income x (expansion investment capital/total investment capital)	Same as groups 1, 2, and 3	No
Reduced % of taxable income for TOI (after exemption period ends)	<ul style="list-style-type: none"> • 25% of taxable profit for the first two years; • 50% of taxable profit for the following two years; and • 75% of taxable profit for the subsequent two years 	No	Same as groups 1, 2, and 3	No
Prepayment of TOI (PTOI) exemption	Based on group (9 years for group 1, 6 years for group 2, and 3 years for group 3)	Based on group and expansion capital ratio (expansion investment capital/total investment capital)	Same as groups 1, 2, and 3	No
Minimum tax (MT) exemption	Yes*	Yes*	Yes*	No
Export duty exemption	Yes	Yes	Yes	No
Option 2 for QIP for groups 1, 2, and 3				
Special depreciation	Yes	Not applicable	Yes	No
Up to 200% deduction for other	Based on group (9 years for group 1, 6 years for group 2, and	Not applicable	Same as groups 1, 2, and 3	No

essential expenses	3 years for group 3)			
PTOI exemption	Based on group (9 years for group 1, 6 years for group 2, and 3 years for group 3)	Not applicable	Same as groups 1, 2, and 3	No
MT exemption	Yes*	Yes*	Yes*	No
Export duty exemption	Yes	Yes	Yes	No
Additional incentives (in addition to above two options)				
Customs duty, specific tax (SPT), and value added tax (VAT) borne by the state	Construction materials, production equipment, and other production equipment for QIP's production chain Production inputs for QIP's production chain***	Same as groups 1, 2, and 3	Same as groups 1, 2, and 3	Same as groups 1, 2, and 3
Refund or reserve to deduct with customs duty, SPT, and VAT later	Not applicable	Not applicable	Directly export or supply production inputs for export QIPs	No
0% VAT rate on local purchases of production inputs that serve the QIPs	Yes	Yes	Yes	No
150% expense deduction for several activities (e.g., research, development, human resource development, etc.)	Yes	Yes	Yes	No

* Must have external audited report.

** A QIP that requests to expand its investment activities is eligible for the TOI exemption for three years, six years, or nine years depending on the investment activities if the project takes any of the following forms:

- Expansion of existing production;
- Expansion through diversification of products in the same product line; or
- Expansion through the installation of new advanced technologies that enhance the production or protect the environment.

*** For export QIPs and supporting industry QIPs. However, if the production inputs are not used for the QIP's production chain, customs duty, SPT, and VAT will not be borne by the state.

Car assembly QIPs

Sub-decree 139 provides a separate incentive specifically for car assembly QIPs: a reduction of customs duty, SPT, and VAT, as summarised in the table below:

Reduction of customs duty, SPT, and VAT	Car assembly QIPs
50% reduction	Finished products with no further processing containing at least 3% local components and meeting at least two of the following three conditions: <ol style="list-style-type: none"> 1. Usage of at least 400 components in a single vehicle 2. Investment capital of at least US\$5 million 3. At least 150 employees
70% reduction	Unsprayed finished components containing at least 5% local components and meeting at least two of the following three conditions: <ol style="list-style-type: none"> 1. Usage of at least 500 components in a single vehicle 2. Investment capital of at least US\$15 million 3. At least 300 employees
80% reduction	Components that have not been welded and sprayed containing at least 20% local components and meeting at least two of the following three conditions: <ol style="list-style-type: none"> 1. Usage of at least 600 components in a single vehicle 2. Investment capital of at least US\$35 million 3. At least 500 employees
90% reduction	Components that have not been pressurised, bended, welded, and sprayed containing at least 40% local components and meeting at least two of the following three conditions: <ol style="list-style-type: none"> 1. Usage of at least 700 components in a single vehicle 2. Investment capital of at least US\$45 million 3. At least 600 employees

QIPs must submit an application to the CDC or the city or provincial sub-investment committee for review and approval regarding a transfer, sale, or export of construction materials, production equipment, other production equipment for the QIP's production chain, and production inputs for the QIP's production chain, in which case customs duty, SPT, and VAT will be borne by the state. However, if the items are used, sold, or transferred for other purposes, customs duty, SPT, and VAT will be applied.

Acquisition, sale, or merger of investment project

QIPs may be transferred by purchase, sale, or merger. The investment incentives may be preserved as long as the transaction complies with applicable laws and regulations, and a written request is submitted to the CDC or the city or provincial sub-investment committee. Details about the process are provided in sub-decree 139.

Filing obligation

Investors are required to file the reports as specified below:

1. Within 20 days after completing their tax declaration, the investors are required to provide to the CDC semi-annual and annual reports on:

- a) The customs duty, SPT, and VAT on import that are borne by the state for construction materials, production equipment, and other production equipment for the QIP's production chain;
 - b) The implementation of actual investment projects, specifying the amount of investment capital, the number of employees, production and market status, and the implementation of protections for the social environment; and
 - c) Their fulfilment of tax obligations in accordance with applicable tax laws and regulations.
2. The CDC will provide detailed instructions on the format of the report.
 3. A certificate of compliance with the semi-annual and annual report requirement will be provided as follows:
 - a) If the semi-annual and annual reports are filed properly and in a timely manner, the CDC will issue the certificate of compliance in the following year;
 - b) If the CDC fails to issue the compliance certificate even though the reports were properly filed, the certificate will be deemed to be issued automatically; and

If the reports are not filed properly, the investment projects will lose the benefits of the incentives, guarantees, and protections previously received. The investors will then have to submit a letter to the CDC requesting a certificate of compliance by clearly indicating the reasons for the failure to provide the reports as required in order to have their incentives, guarantees, and protections reinstated.

Contacts

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



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