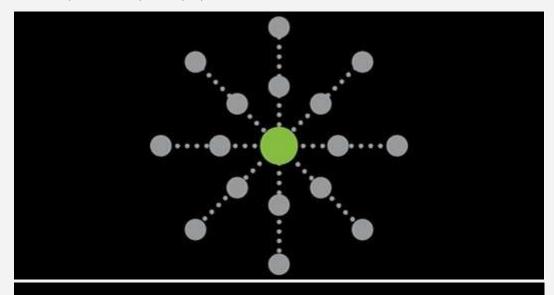
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Cambodia | Tax and Advisory Services | 7 April 2020



Cambodia Tax Alert

TOS exemption on 2020 seniority indemnity payments

In a circular dated 24 March 2020 (no. 002), Cambodia's Ministry of Economy and Finance (MEF) provided guidance regarding the Tax on Salary (TOS) exemption on 2020 seniority indemnity payments.

From 2019 onwards, employers have been required to compensate all employees who have open-ended employment contracts (i.e., Undetermined Duration Contracts "UDC") with seniority indemnity payments twice a year instead of making a single dismissal indemnity payment upon termination of the employment. The seniority indemnity payments must be paid in June and December and may total up to 15 days of wages or salary and other benefits. Employers also may have to make back payments for periods before 2019.

The MEF issued a circular on 11 April 2019 (no. 003) providing that any seniority indemnity payments made to Cambodian employees are exempt from TOS but payments made to expatriate employees in Cambodia are taxable.

The new circular provides the following clarification:

- Seniority indemnity payments for years prior to 2019 and for 2019 are still covered by circular no. 003.
- Seniority indemnity payments for 2020 and later years that do not exceed KHR 4 million (or US\$1,000) are exempt from TOS. The portion of

seniority indemnity payments that exceeds KHR 4 million per year is subject to TOS. The seniority indemnity payments are made twice a year by 30 June and 31 December, the TOS should be calculated as follows:

- First payment: Taxpayers should subtract KHR 2 million from the total seniority payment due and add the remaining amount to the monthly salary base for TOS calculation purposes at the time of payment.
- Second payment: Taxpayers should follow the same approach used for the first payment.
- Seniority indemnity payments are deductible for Tax on Income (TOI) purposes when the amounts are paid.

The new circular does not address the TOS exemption for Cambodian employees. However, similarly to the 2019 circular, it applies to enterprises in the garment, textile, footwear, and other sectors.

If you have any questions or need our assistance in reviewing or calculating your seniority indemnity payments for 2020, please let us know.

If you have any questions or would like additional information on the topics covered in this alert, please contact the Deloitte Cambodia tax team below.

Best regards,

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