Taxation of Individuals in Cambodia

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1. OVERVIEW

Tax on Income (Individual) and Tax on Salary is governed by the following laws and regulations:

- Royal Kram No 02NS Promulgating the Law on the Taxation
- Prakas No. 1059 PK/MEF/DT on the Tax on Profit
- Prakas No. 1173 on Salary Tax

2. INTRODUCTION

Most individuals living and working in Cambodia are aware that they have to pay tax on their salary. As the obligation to declare this rests with the employer, most individuals don't give it much further thought. But what about other forms of income, besides salary?

3. TAX ON SALARY

Tax on Salary is imposed each month on the salary paid to individuals for the purpose of fulfilling employment activities in Cambodia (Article 41, Law on Taxation). Whether a person is an employee or an individual earning profit depends on "the degree of subordination to the employer" (Prakas 1173 Section 1.2 31 Dec 2003). The governing Prakas outlines four criteria to assist in determining this. If two of these four criteria are met, an employment relationship exists:

-the person will be paid as long as he appears at a designated place to perform tasks outlined in a general (written or oral) agreement;

-the person does not make their own hours (i.e. his time and place of employment are chosen for them)

-the person is not required to invest in their own equipment;

-the person does not provide services to several people simultaneously.

If a person does not meet at least two of the above four criteria, he or she will be deemed an independent service provider subject to withholding tax (see below).

If he or she is an employee, tax on salary liability rates are applied as outlined below:

Salary per month	Rate	Amount Owed	Cumulative
From 0 to 500,000 Riels (USD$0 to USD$125)	0%	Nil	Nil
From 500,001 to 1,250,000 Riels (USD$125 to USD$312.50)	5%	$9.37	$9.37
From 1,250,001 to 8,500,000 Riels (USD$312.50 to USD$2,150)	10%	$183.75	$193.12
From 8,500,001 to 12,500,000 Riels (USD$2,150 to USD$3,120)	15%	$145.50	$338.62
Over 12,500,000 (USD$3,120)	20%		

Although the employee is responsible for the debt, the obligation to withhold and pay the tax each month rests with the employer (Article 52). Because of this, most individuals simply "forget" about their monthly tax obligations because they know it is somebody else's responsibility.

4. WITHHOLDING TAX

Physical persons who earn income from business activities that fall outside the scope of employment have to pay withholding tax on that income. The rate due varies depending on the source of the income, and the residency status of the earner.

Non-residents have to pay a withholding tax of 14% on all income derived from management or consultancy services, royalties from use of intangible property or mineral resources, rental income, interest income, and dividends.

Residents have to pay withholding tax at the following rates depending on the source of income:

-Interest received by a bank (Non-Fixed Term Deposit):	4%
-Interest received by a bank (Fixed Term Deposit):	6%
-Rental Income:	10%
-Other Interest Income:	15%
-Royalties from mining and intangible property:	15%
-Income from services (except where subject to VAT):	15%

5. TAX ON OTHER INDIVIDUAL INCOME

The Law on Taxation provides that profit realised by a physical person, outside the scope of Tax on Salary or Withholding Tax, shall be taxed at the following rates:

Annual taxable profit	USD	Tax rate
From 0 Riel to 6,000,000 Riels	$0 to $1,500	0%
From 6,000,001 Riels to 15,000,000 Riels	$1,501 to $3,750	5%
From 15,000,001 Riels to 102,000,000 Riels	$3751 to $25,500	10%
From 102,000,001 Riels to 150,000,000 Riels	$25,501 to $37, 500	15%
Greater than 150,000,000 Riels	greater than $37,500	20%

6. CAPITAL GAINS

A capital gain arises when an asset (such as an item of property) increases in value. This becomes realised either through disposal (sale) of the asset, or through improvements to the asset which increase its value (such as renovating a house). The gain is a form of income, and is subject to tax under the provisions for tax on profit realised by a physical person.

In accounting terms, this is known as a "realised" gain or a "recorded gain", based on:

-the sale price being higher than the book value; or

-improvements to the asset increasing its book value.

Book value is the cost price, less any depreciation.

7. DEPRECIATION

Cambodian law states that in order to calculate book value, the book value of assets should be calculated at the cost price, less depreciation (per year or part-year) as per the table below:

Type of Asset or Property	**Annual Depreciation**	**Method**
Buildings and structures (including fixtures)	5%	Straight Line
Computers, electronic information systems and IT software.	50%	Declining Balance
Vehicles and Furniture	25%	Declining Balance
All Other Tangible Property	20%	Declining Balance

The Straight Line Method is where the annual percentage deducted is based on the original cost price at the start of the period. Example (at 5%):

	At start (cost price)	After 1 year	After 2 years	After 3 years
Book value:	$100,000	$95,000	$90,000	$85,000

The Declining Balance Method is where the annual percentage deduced is based on the book value of the previous period. Example (at 5%):

	At start (cost price)	After 1 year	After 2 years	After 3 years
Book value:	$100,000	$95,000	$90,250	$85,738

8. DECLARATION

Capital Gains should be declared annually at your local tax branch. For more information on how to do this, or to inquire about our tax declaration services in general, please visit us our website at www.bnglegal.com