



Cambodia: Tax Revenue Reform Issues, Further Reforms

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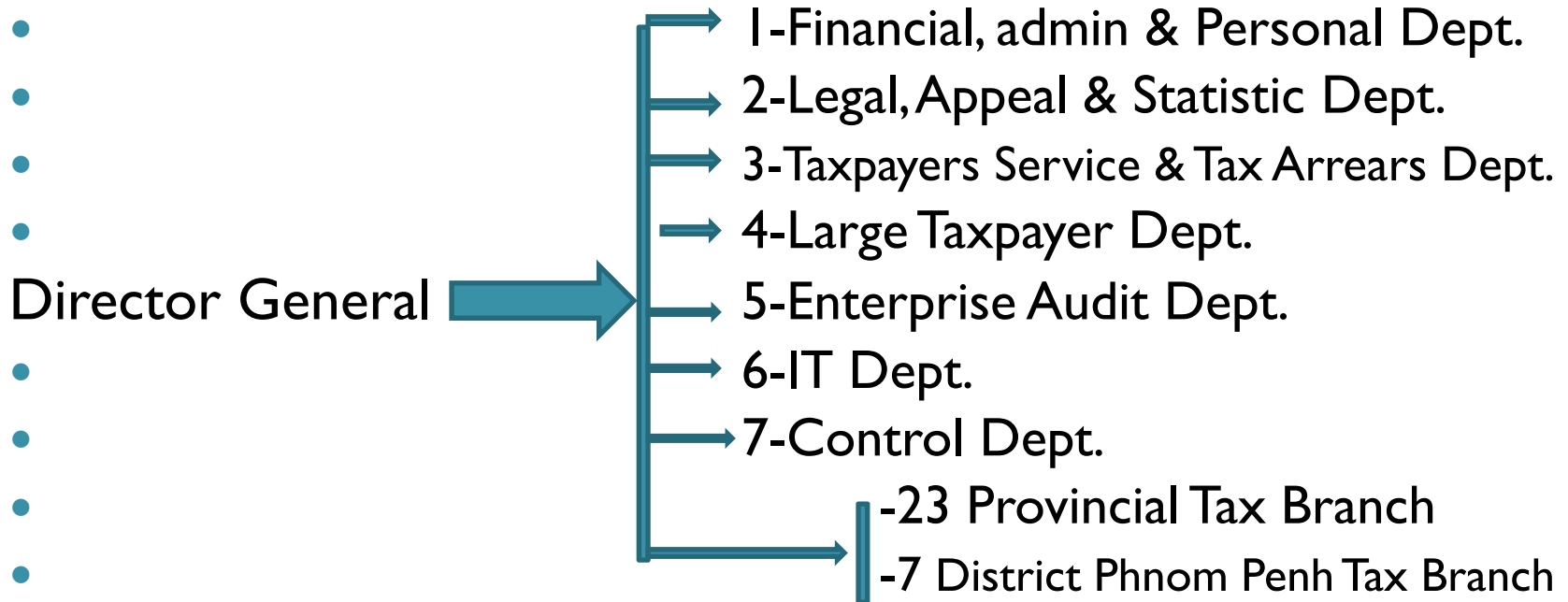
Outline

- **1- Macroeconomic Performing in 2011**
- **2- Organization Structure of General Department of Taxation (GDT)**
- **3- Background of Cambodia Tax Reform**
- **4- Summary of Cambodia Tax System**
- **5- Tax Revenue of General Department of Taxation**
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- **7- Further Tax Reform:**
 - **Short Term**
 - **Medium Term**

I- Cambodia Macroeconomic Performing in 2011

- Population 14 Millions
- GDP Growth 6.7%-7%
- Nominal GDP in 2010 11,458 Millions of US \$
- Exchange Rate (Riel per \$) 4,100 Riels/\$
- Inflation (annual average) 5.7%
- Revenue (% GDP) 15.4%
- *of which:* domestic revenue 12.1%
- *of which:* Tax revenue 10.1%
- Expenditure (% GDP) 18.2%
- Public External Debt(in Million of \$)3,790
- (in % GDP) 28,9%

2-Organization Structure of GDT



- **-Number of Taxpayers:** Total 71,983 taxpayers on which 18,978 self-assessment taxpayers, and 53,005 estimated regime taxpayers.
- **-Number of Tax Official:** 1,290

3- Background of Cambodia Tax Reform

Character of Cambodia Tax Reform:

- 1- Increased Tax Revenue
- 2- Broadened Tax Base
- 3- Reduced Tax Rate
- 4- Introduced New Tax
- 6- Equity: Horizontal and Vertical Equity
- 7- Efficiency: Reduce Administration and Compliant cost.
- 5- Changed Rules and Procedures

3-Background of Tax Reform(con't)

1- Pre-Reform 1982-1993 → Pure Estimated Regime (Official-Assessment); Tax official calculate the estimated profit and compromise with taxpayers, collection of taxes, & payment.

2- Reform 1994-1996

Introduced Self-Assessment system; Taxpayers file tax return & make tax payment themselves.

3-Tax Reform 1997 To Present

■ **Introduced Law on Taxation** in 1997: profit tax, salary tax, VAT, excise tax, withholding tax, and administrative rules and procedures.

4-Summary of Cambodia Tax System

- 1- Salary Tax 0%-20% (in 1997)
- 2- Profit Tax 30% for mining; 20% for legal person, 2% for insurance.
- 3- VAT 10%, 0% for export. (in 1999)
- 4- Excise Tax 10% for tobacco; 20% for brewery; 10% air transportation; Telephone 3%
- 5- Rental Tax 10%
- 6- Stamp Tax 4% (in 1995)
- 7- Accommodation Tax 2% (in 2006)
- 7- Unused Land Tax 2% (in 1997)
- 8- Immovable Property Tax 0.1% (in 2011)

9-Withholding Tax on Resident:(in 1997)

- Rent 10%
- Interest 0% from bank,
15% other than bank,
4%, 6% for saving account bank pay
- Service 15%
- Fringe Benefit 20%

10-Withholding Tax on Non-Resident:

- Interest, Dividend, Royalty, Management &
Technical Services 14%
- Salary of Non Resident 20%

I I-Tax Incentive for Investment Project: (in 2005)

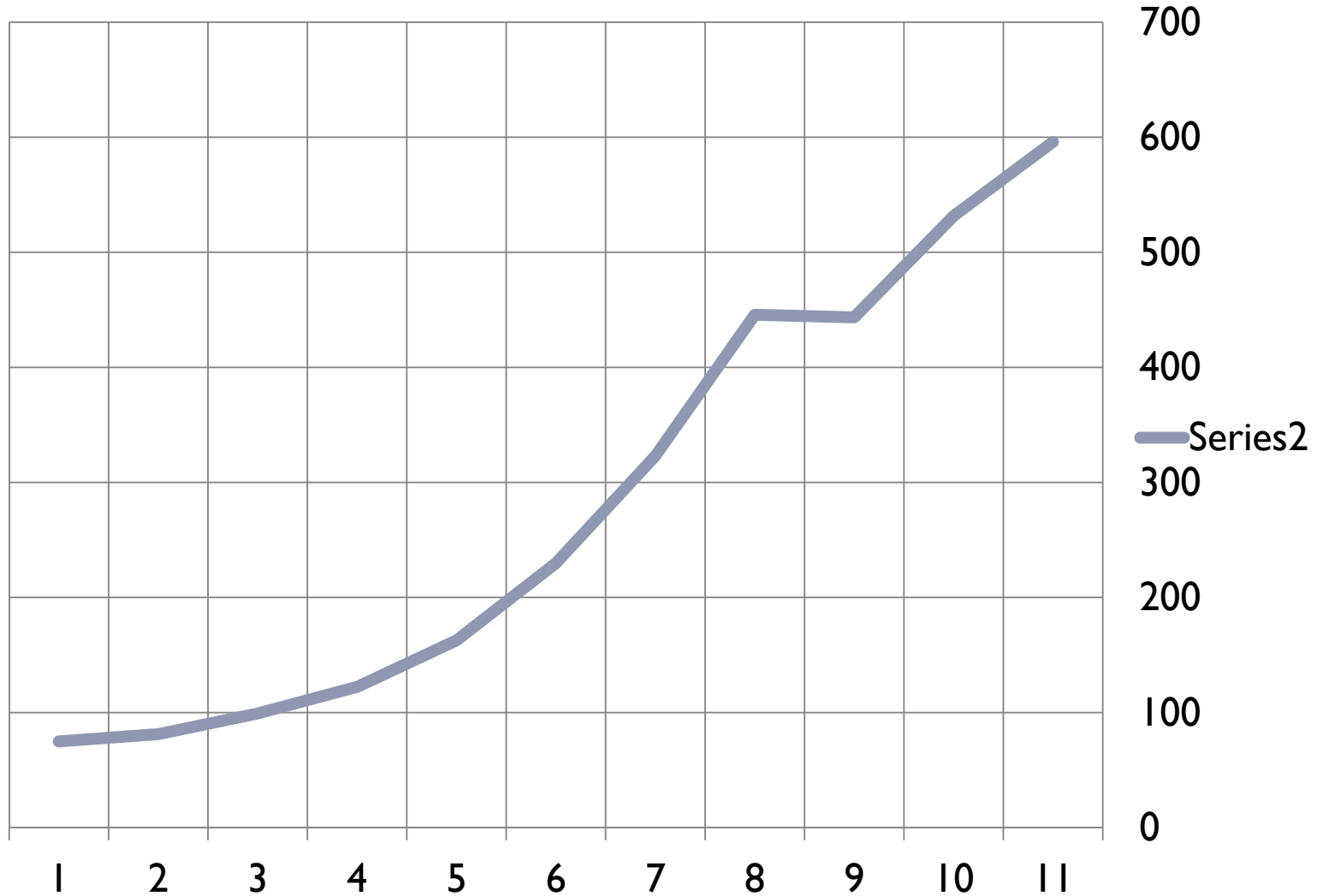
- Exemption Period: Trigger Period + 3 Year Tax Holiday + Priority Period (from 1-3 years)
or Select 40% of Special Depreciation
- Exemption of Minimum Tax (1% of Annual Turnover)
- Exemption of Import & Export Duty

I2-Tax Incentive 3 years on Security Market: (2011)

- 10% Reduction of Taxable Profit
- 50% Reduction of Withholding Tax on Interest, Dividend,

5- Tax Revenue of GDT

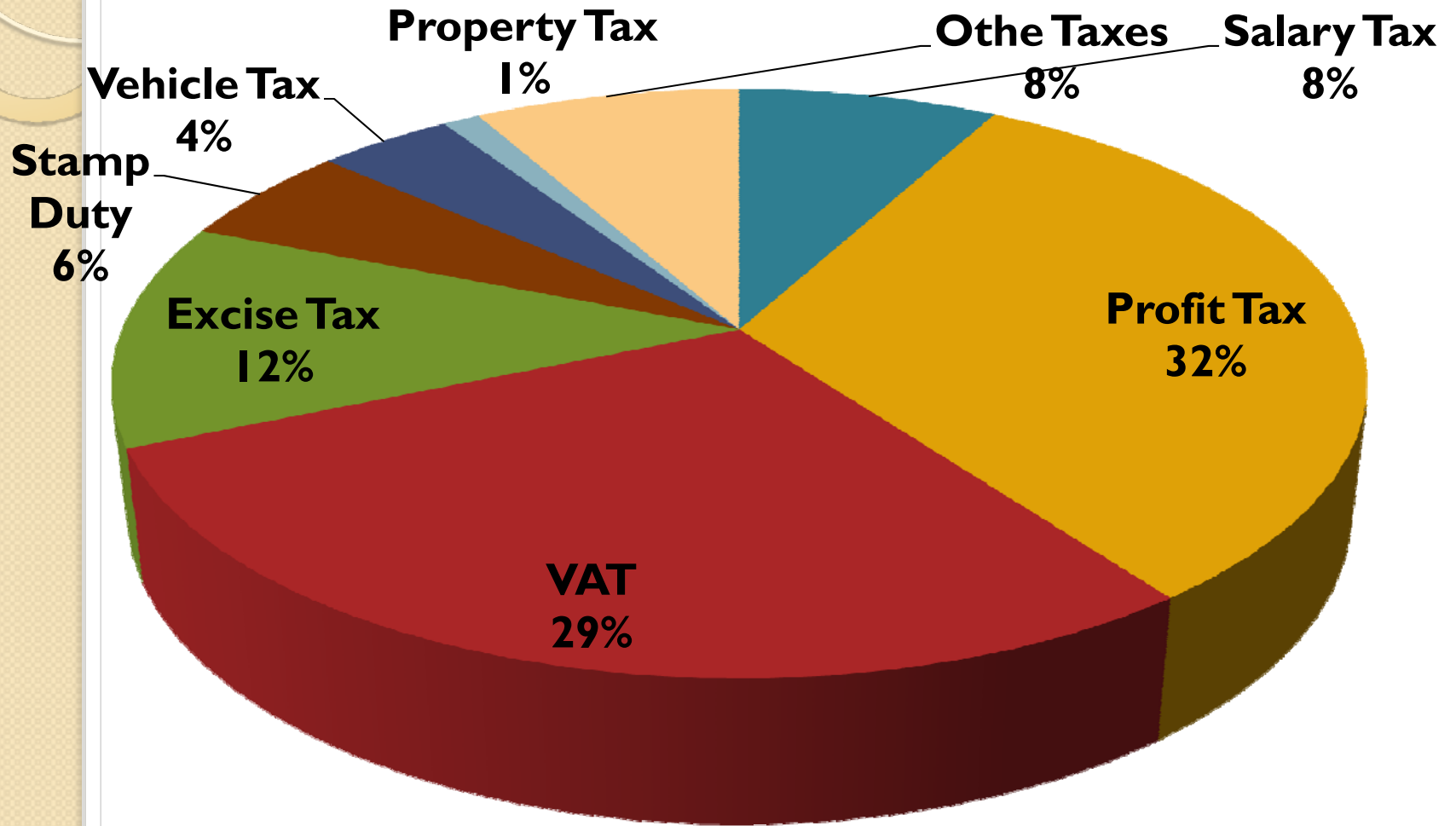
Tax Revenue Trend from 2001-2011 in US\$



Tax Revenue in % of GDP 2008-2011

	2008	2009	2010	2011
Total Tax Revenue	10.7%	9.8%	10.2%	10.1%
- Direct Tax (Profit, Salary, Rental Tax)	1.6%	1.7%	1.7%	1.8%
- Indirect Tax (VAT, Turnover, Excise)	8.5%	7.5%	8.0%	7.7%
Of which: Trade Tax (Import & Export duty)	2.6%	2.2%	2.3%	2.1%
- Provincial Tax (Stamp, property, vehicle, patent, accommodation, public lighting, unused land)	0.6%	0.6%	0.5%	0.6%

Tax Revenue in 2011 in %



6- Issues of Tax Revenue Reform

□ 1- Tax Policy Issues:

- **1-Low Tax Revenue % GDP:** 10.1% in 2011
- **2-Petroleum Regulation:** No clear regulation on definition and deduction (exploration, development expenditure), loss carry forward, decommissioning cost.
- **3-International Tax Issues:** no agreement with other countries b/c many reforms in the same times and limit capacity of staffs
- **4-Transfer Pricing:** no transfer guideline rules for international and domestic transaction.
- **5-Interest -free loan:** growth of borrowing interest with free loan from related parted and non related party that concern on evasion of withholding tax on interest.
- **6-Thin Capitalization:** 50% annual deduction, unlimited.

6- Issues of Tax Revenue Reform (Con't)

- **7-Immovable Property Tax:** concerning the valuation of property, low rate 0.1%, many exemption.
- **8-VAT :**
 - High VAT Threshold is very: 125,000\$ for supplying goods and 60,000\$ for services
 - Exemption VAT on Electricity sale
 - No definition on Primary Financial Service for VAT exemption
 - No clear rules for VAT on Leasing, including withhold tax on interest, depreciate, VAT payment.
- **9-Excise Tax:** apply ad valerom tax (rate) on tobacco, brewery, petroleum. Low tax rate on luxury goods such as tobacco 10%. and Diesel 4,35% .

□ 2- Tax Administration Issues:

- **1- Taxpayer Service:** limited capacity of staff and budget to help taxpayer to understand their tax obligations: Seminar, TV, radio, ..
- **2- Tax Audit:** insufficient intelligent/risk assessment, audit case selection, audit plan, execution to deter non-compliance. Lack tax auditors skills, information to support audit, develop risk strategic.
- **3- Tax Arrears :** large tax arrears around 50% of total tax revenue in 2011. 5% of the opening balance was collected in 2011. No real legal action for bring unpaid taxpayers to court.
- **4- Human Resource:** around 50-70 tax officials retire every year, limit capacity of officials. Resources allocated to develop new policy and other special project work.
- **5- Information Technology (IT):** No electronic filing. Insufficient information for risk assessment. lack of equipments and skill IT expert to support tax filing, payment, audit, tax arrears,
- **6- Good Governance:** low salary of tax official.

7- Further Tax Reform

I- Short-Term on Tax Policy Reform:

- 1-**Petroleum Regulation:** Change law to determine tax obligation definition and deduction, loss carry forward, decommissioning cost.
- 2-**International Tax Issues:** Negotiation DTA with technical assistant and increase skill of staffs
- 3-**Transfer Pricing:** Develop base on OECD guideline and develop capacity to administer the rules.
- 4-**Interest -free loan:** regulate by allowing interest free loan from related parted, but non related party apply withholding tax or subsidy
- 5-**Thin Capitalization:** Change base on debt to equity ratio.
- 6- **Property Tax:** Revalue property at least 5 years with indexation.
- 7- **VAT Reform:** Reducing VAT Threshold, eliminate exemption VAT on Electricity sale. Leasing: no withhold tax, lessor pay VAT.
- 8- **Reforming Excise Tax:** Replace ad valerom tax on tobacco, beer, petroleum to specific tax with indexation. Increase tax rate on tobacco from 10% to 20% or 30%, Diesel from 4,35% to 33,3%.

7- Further Tax Reform (Con't)

2- Short Term on Tax Administration Reform:

- 1- **Taxpayer Service:** Seminar, response letter, TV, radio, leaflet, guideline.
- 2- **Tax Audit:** strengthen risk assessment, audit case selection, audit plan, tax auditors skills, and increase tax auditors, information to support audit, develop risk strategic.
- 3- **Tax Arrears :** legal action: made public taxpayer's name in newspaper, bring unpaid taxpayers to court. Determine old debt is collectible and, if not, writing it off as uncollectable.
- 4- **Capacity of Tax Official:** increase more staffs and training.
- 5- **Information Technology (IT):** Electronic filing, equipments, support operation: for tax filing, payment, audit, tax arrears.
- 6- **Good Governance:** Set up Code of Conduct, increasing salary or bonus with penalize.

7- Further Tax Reform (Con't)

2- Medium Term Tax Reform:

1- Tax Incentive Reform:

- Eliminate all tax exemption and replace with accelerated depreciation
- Set up tax expenditure statement.
- Eliminate exemption of profit tax and withholding tax on Security Market.

2- Tax on Salary: Reduce the rate schedule five rates 0%, 5%, 10%, 15% 20% to three rates: 0%, 10%, 20

3- Preparing Introducing Personal Income Tax: (annual PIT filing) Training and mobilizing qualified personal. Taxpayer information campaign. Introduction of required IT system.

4- Tax Arrears : Implement modern debt management strategic for highest risk cases and prevent the growth in arrears.

5- Information Technology (IT): More Electronic filing,

6- Develop a reform strategy: Organization structure staff and monitoring. Human recourse policy (recruitment, remuneration, retention, promotion, and staff performance).



Thank You