

Enforcement Trends and Compliance Challenges in Cambodia

The Fourth IMF-Japan High-Level Tax Conference
for Asian Countries

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Outline

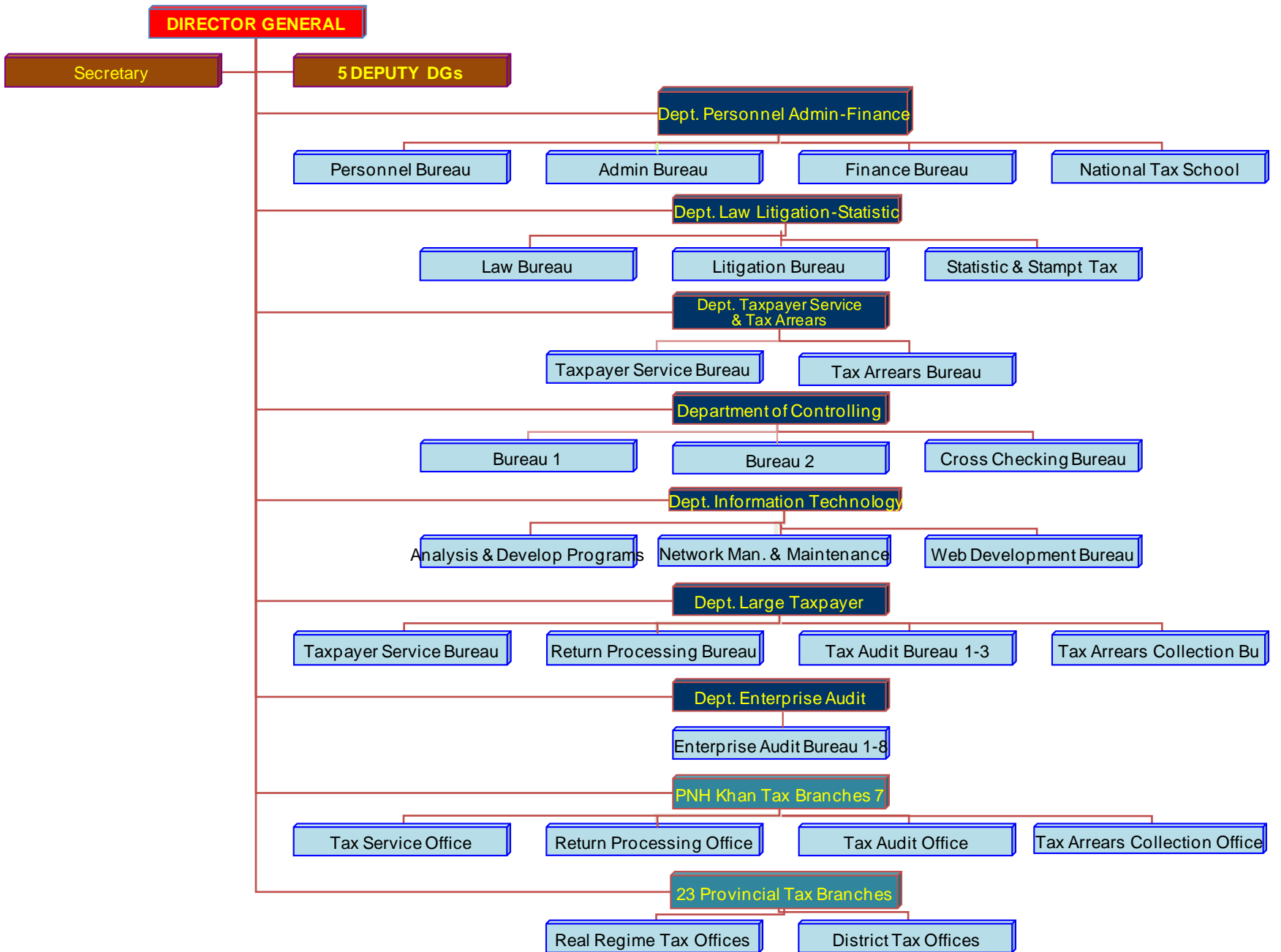
- Macroeconomic Performance in 2012
- Organizational Structure of General Department of Taxation (GDT)
- Background of Cambodian Tax System
- Tax Revenue Trend Collected By GDT 1994–2012
- Tax Audit
- Debt Management and Settlement of the Taxpayers' Protests
- Issues Facing
- Tax Reforms

Macroeconomic Performance in 2012

- Population 14.95 Millions
- Real GDP Growth 7.3%
- Nominal GDP in 2012 14,038 Millions of US\$
- GDP per capita (US\$) 971 US\$ (911 US\$ in 2011)
- Exchange Rate (Riel/\$) 4,033 Riels/\$
- Inflation (Annual Average) 2.9% (5.5% in 2011)
- Domestic Revenue (% GDP) 14.5%
 - Of which: Tax Revenue 12.5%
 - Of which: Nontax Revenue 2%
- Expenditure (% GDP) 17.5%

Organizational Structure of GDT

- Tax Department was reestablished in 1982 and upgraded to the General Department of Taxation (GDT) in 2008
- GDT is headed by one Director General and 5 Deputy Directors General
- GDT divided into: Central Level (Headquarter) and Operational Level
 - The Central Level: 7 Departments
 - Operational Level: 7 Phnom Penh Khan Tax Branches (KTB) and 23 Provincial Tax Branches (PTB) consisting of 135 Offices
- Total Tax Officials: 1458 (lady 330)
- Total taxpayers: 72,983 of which 26,399 are self-assessment taxpayers



Background of Cambodian Tax System

- **1982–1993:**

Pure Estimated Regime/Official Assessment (ER); tax officials calculate the estimated profit and compromise with taxpayers, collection of taxes, and payment of tax revenue to government

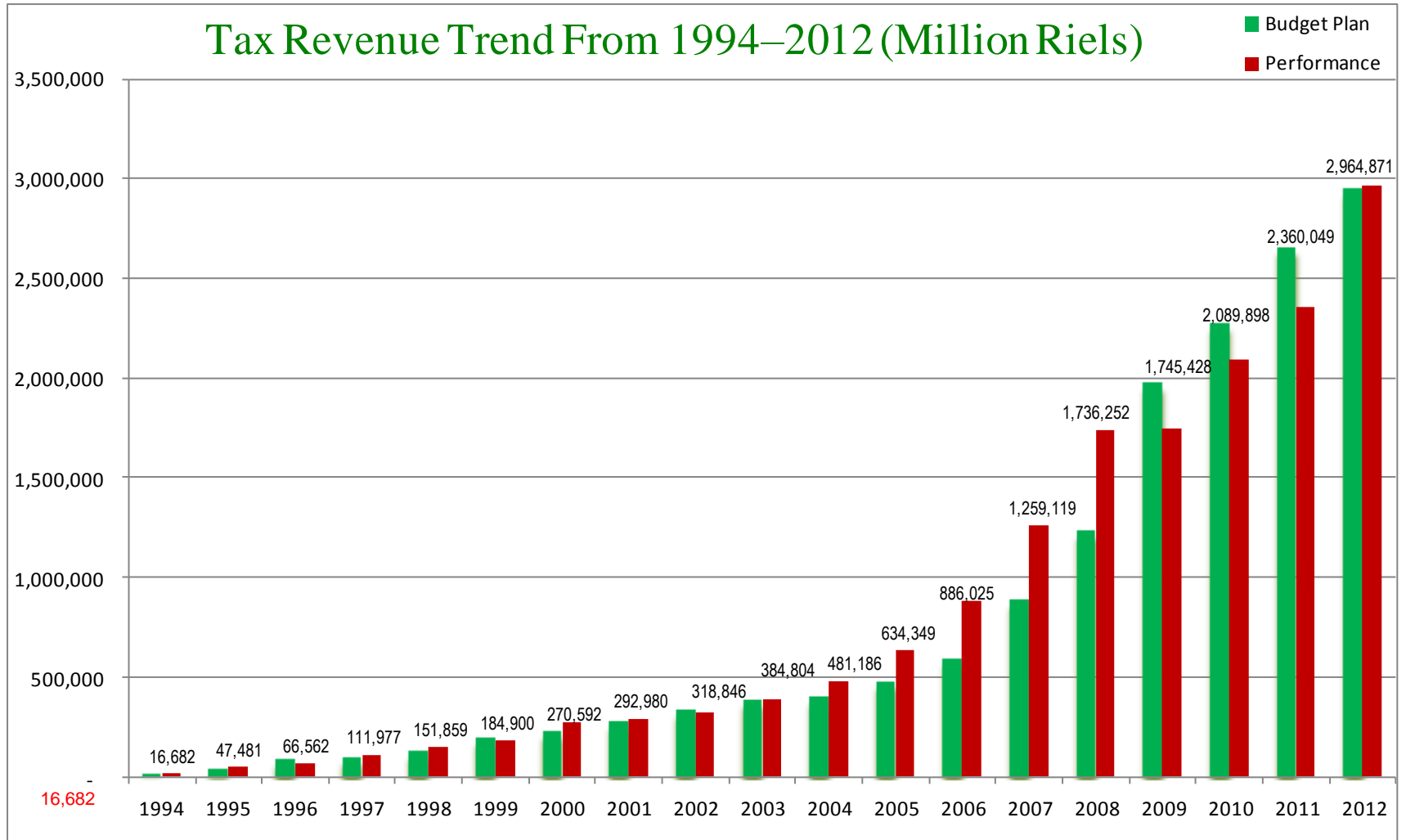
- **Reform 1994–1996:**

Introduced Real Regime/Self-Assessment System (RR); taxpayers file tax return and make tax payment themselves

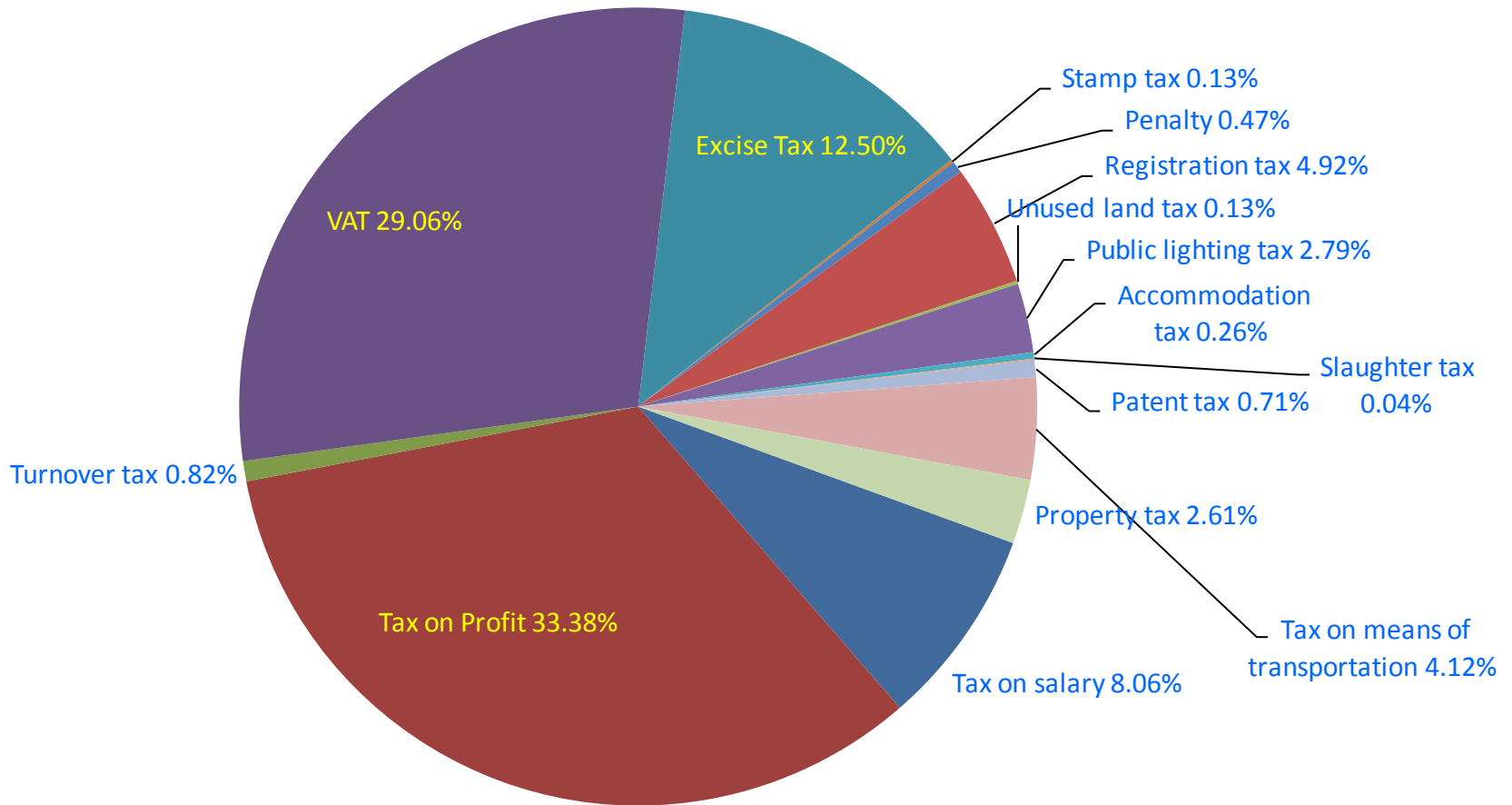
- **Tax Reform 1997–Present:**

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

Tax Revenue Collected by GDT 1994–2012 (in millions of Riels)



Tax Revenue Collected By GDT in 2012 (%)



Tax Audit

1. Scope of Tax Audit:

- Two tax regimes within tax system in Cambodia, Real Regime (RR), and Estimated Regime (ER)
- RR applied to Large and Medium Taxpayers, while ER applied to Small Taxpayers
- RR collected over 92% of total tax revenues
- Tax audit is only applied to RR Taxpayers

Tax Audit

2. Entities Involved in Tax Audit:

- Department of Large Taxpayers (DLT): limited audit, desk audit
- Department of Enterprise Tax Audit (DEA): comprehensive audit
- Audit Bureaus in 7 Khan Tax Braches (PKBs) in Phnom Penh, Capital City), and 23 Provincial Tax Braches (PTBs): limited audit and desk audit
- Cross-Checking Bureau under Department of Controlling (gathering information to support audit)

Tax Audit

3. Types of Tax Audit:

- **Comprehensive Audit:** multiple taxes, multiple tax periods, unlimited or broad scope, at the taxpayer's business premises
- **Limited Audit:** Issues-Oriented Audit, Desk Audit, Project Audit, and VAT Refund Audit
 - **Issues-Oriented Audit:** restricted or limited in scope, at the taxpayer's business premises, audit by type of tax. (e.g., VAT, withholding tax, salary tax)

Tax Audit

3. Types of Tax Audit (cont'd):

- **Desk Audit:** No field work, conducted at tax office, verify tax returns, examine incomes, expenses, cross-check data by requesting the taxpayer to bring specific documents to the tax office
- **Project Audit:** Restricted or limited in scope, at the taxpayer's business premises on a certain project, audit by type of taxes. (e.g., VAT, withholding tax, salary tax, and any other revenues and expenses (PL & BS))
- **Refund Audit:** Verify VAT tax returns, output tax, input tax, and amount of credit and refund claimed

Tax Audit

4. Case Selection and Staff Assignment

- Number of auditors versus selected cases
- Each team has 2 officials and Deputy Chief of Audit Bureau as team's assistance
- Each team assigned 12 cases/year (or more)
- Audit program: DLT, DEA, KTBs, and PTBs
- The audit program approved by Director General of GDT

Tax Audit

5. Audit Results

Description	2009	2010	2011	2012
Number of Self-Assessment Taxpayers	15,922	18,751	22,071	26,399
Number of Audit	880	1,552	1,760	1,640
Coverage Percentage	5.53%	8.28%	7.97%	6.21%
Total Tax Reassessment (in millions of Riels)	345,192	542,977	370,009	291,938
Average per Case (in millions of Riels)	392	349	210	178

Debt Management and Settlement of the Taxpayers' Protest

1. Debt Collection Procedures

- **Tax Collection Letter:** Request taxpayer to pay tax liability, 30 days after receiving the letter of notification for tax collection, no additional interest
- **Reminder Letter:** Request taxpayer to settle tax liability within 15 days after receiving a reminder letter, no additional tax
- **Debt Classification:** Large amount, collectible debt (alive business) and non-collectible (wind-up business)

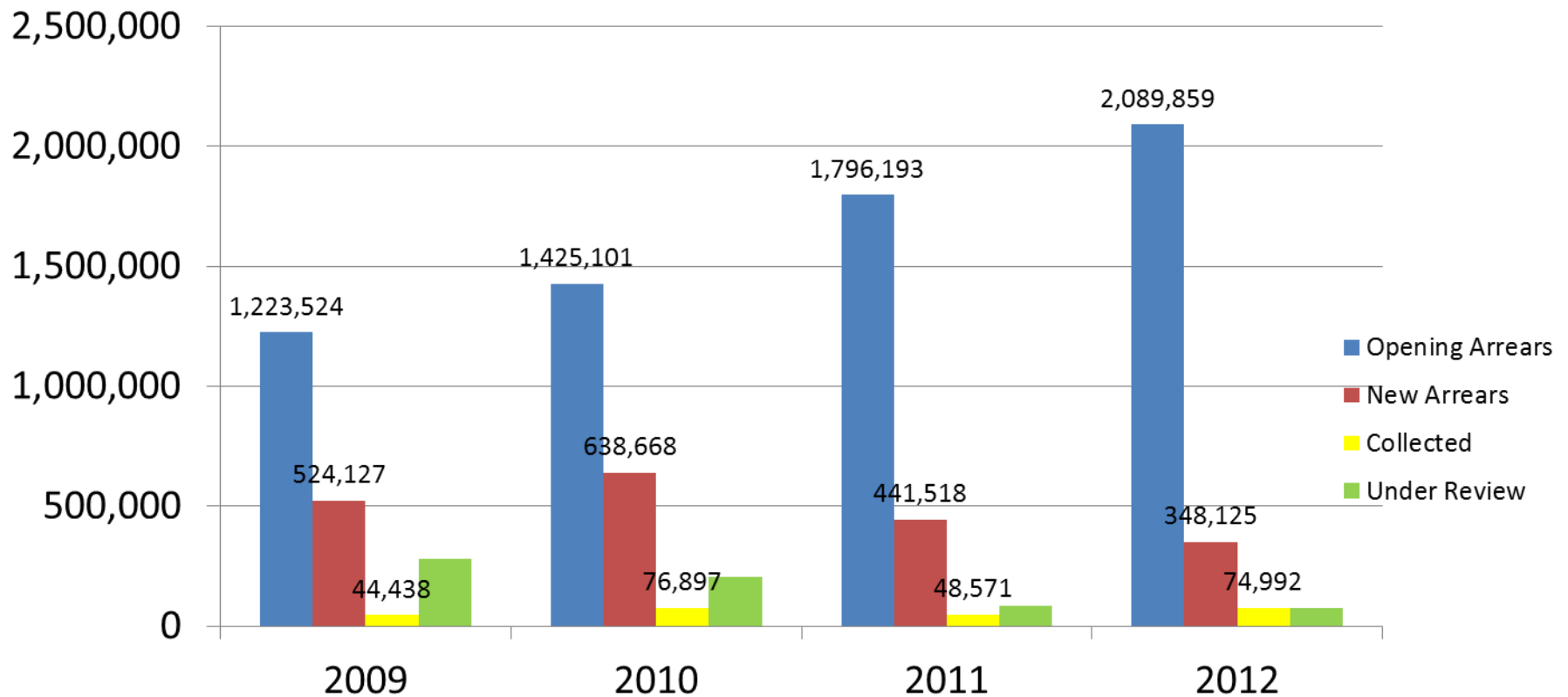
Debt Management and Settlement of the Taxpayers' Protest

2. Enforcement Measures

- **Invitation:** Invite taxpayer to tax office
- **Publication in Newspaper:** Taxpayer's TIN in newspapers, informing taxpayer about their debt and request them to settle the debt within certain period
- **Block Bank Account:** Issue letter to all banks to block taxpayer's bank account
- **Inform General Department of Custom & Excise, CDC:** Cease import-export, discontinue tax incentive
- **Invalidate Licenses:** VAT certificate, license from various government entities

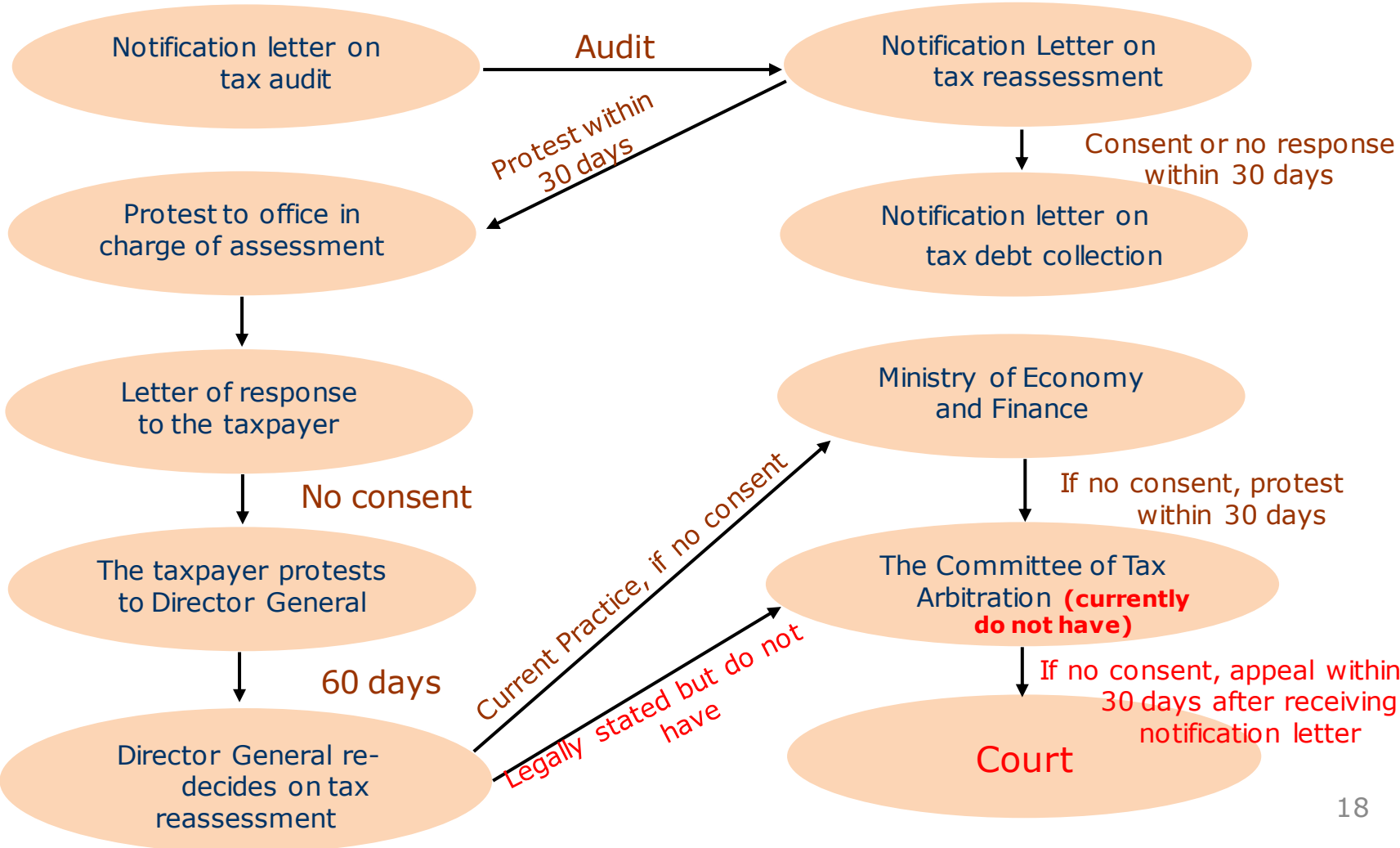
Debt Management and Settlement of the Taxpayer's Protest

3. Trend of Tax Arrears and Collection 2009–12 (million Riels)



Debt Management and Settlement of the Taxpayer's Protest

4. Procedures for Settlement of the Taxpayer's Protest



Issues Facing

1. Tax Policy Issues

- Two tax regimes in the system: no personal income tax with loopholes or allowing noncompliant taxpayers to shift their income through the regimes for avoidance and evasion of taxes
- Unclear tax rules and regulation of certain sectors, such as petroleum and mining extractive industries, taxes on financial lease
- No Committee of Tax Arbitration (LoT, Article 123)
- No Investigation Office to oversee serious noncompliance
- Lack of regulation and guidelines on transfer pricing taxation
- No tax treaty with other countries

Issues Facing

2. Tax Administration Issues

- Tax administration in Cambodia is very young (starting from 1982)
- Tax culture is still low
- Limit number and capacity of tax officials (around 50–70 tax officials retire every year), resources allocated to develop new policy and other special project work
- Lack of a code of conduct
- Most of procedures are manual and paper-based
- System and procedures to monitor and control the work of GDT's officials are underdeveloped

Issues Facing

2. Tax Administration Issues

- Audit manual/audit guidelines on certain complicated industries, such as petroleum, banking, international transportation, construction, telecommunication, etc. are underdeveloped
- Lack of tax auditors' skills, expertise to assist audit team, information to support audit, develop risk strategic plan
- Insufficient intelligence/risk assessment, audit case selection, audit plan, execution to deter noncompliance
- Level of taxpayers' noncompliance and cooperation with tax auditors are still big concerns for GDT
- Access to taxpayers' books and records is limited

Issues Facing

2. Tax Administration Issues

- **Information Sharing:** Lack of information sharing amongst related government entities, such as General Department of Customs and Excise, CDC, and MOC
- **Tax Arrears:** Large tax arrears, no real legal action against noncompliance (no court case)
- **Information Technology (IT):** No electronic filing, insufficient information for risk assessment, lack of equipment and skill of IT experts to support tax filing, payment, audit, and tax arrears
- **Human Resource Management:** Low salary of tax officials and procedure of staff performance review is not well-organized yet

Tax Reforms

Policy Reforms:

- Make and amend tax law and regulation to cope with specific industries
- Approve transfer pricing taxation rules and guidelines for implementation
- Set up a Committee of Tax Arbitration
- Establish Investigation Office to oversee the serious instances of noncompliance
- Reduce estimated regime by promoting a self-assessment system and introducing personal income
- To attract foreign direct investment and reduce international tax avoidance and evasion, conclude DTA with other countries

Tax Reforms

Tax Administration Reforms:

- **Strengthening Tax Culture:** Taxpayer education through seminars, response letters, TV, radio, leaflets, guidelines, posters
- **Tax Audit:** Strengthen risk assessment, audit case selection, audit plan, increase tax auditors, tax auditors' skills, and, information to support audit, develop risk strategy, and approve audit manual/guidelines on certain complicated industries to be implemented
- **Tax Arrears:** Implement modern debt management strategy for highest-risk cases and prevent the growth in arrears, legal action made public using taxpayer's names in newspaper, and bringing unpaid taxpayers to court; for classified debt, take in action of collectible debt and write it off if uncollectable

Tax Reforms

Tax Administration Reforms:

- **Information Technology (IT):** Electronic filing, equipment to support operations, such as tax filing, payment, audit and tax arrears, and sharing information amongst related government entities
- **Staff Management:** Set up Code of Conduct, increase number of staff and training, increasing salary or bonus with penalty, development and implementation of appropriate and staff review performance procedures (recruitment, remuneration, retention, promotion), and improvement of system and procedures to monitor and control the work of GDT's officials

Thank You