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Recent Cambodia Tax Updates

Income Tax incentives for qualified investment project expansion plans

-The Ministry Of Economics and Finance (MEF)
-General Department of Taxation (GDT)

Prkas No.313 MEF on Income Tax incentives for qualified investment project expansion plans

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Income Tax incentives for qualified investment project expansion plans

This Prakas introduces income tax incentives for expanding qualified investment projects under the EQIPs framework. It applies to enterprises classified as qualified investment projects under the 'QIPs' framework, as stated in Article 16 of Sub-Decree No. 139 dated June 26, 2023, which expands their investment activities. The goal is to encourage investment and economic growth.

Conditions for Income Tax Exemption

The Income Tax Incentive for Qualified Investment Projects EQIPs grants tax exemptions based on the original project's investment activity.

The duration of exemption varies by investment activity group:

9 years for Group 1,
6 years for Group 2,
3 years for Group 3.

- After obtaining permission to expand "QIPs" activities, the General Department of Taxation issues an exemption certificate.
- The tax exemption applies to additional investment capital used exclusively for new construction materials and production equipment.
- Tax exemption aligns with increased capital expenditure for construction materials and new equipment in each taxable year.

Calculation of tax-exempt income for EQIPs

1. The tax-exempt income for EQIPs is determined by multiplying the total taxable income (TTI) by the rate of expansion capital (EC) of the QIPs. The rate of expansion capital is calculated as the expansion capital of the QIPs divided by the total investment capital (TIC). The total investment capital includes both the initial capital (RC) and the expansion capital (EC).
    - TEI = TTI x (EC / TIC)
        - TEI: Tax-Exempt Income
        - TTI: Total Taxable Income
        - EC: QIPs Expansion Capital to receive the incentive
        - TIC: Total Investment Capital (RC+EC)
        - RC = Investment Capital of Initial QIPs

2. EQIPs must apply this calculation during the incentive period for income tax payment. The enterprise should follow these steps: A. Calculate the share of tax-exempt income for EQIPs using the formula from Paragraph 1. B. Determine the tax-exempt income based on the progressive rate specified in sub-paragraph B of Article 14 of the Sub-Decree on the Implementation of the Investment Law of the Kingdom of Cambodia. Subtract the portion designated as tax-exempt income for EQIPs from the total taxable income, and then multiply it by the exemption rate for each tax year.

Exemption of 1% Income Tax and Minimum Tax

Monthly income tax relief at a rate of 1% for EQIPs is granted based on the capital expansion rate of the QIPs during the income tax exemption period for the expansion project. Additionally, enterprises can obtain a minimum tax exemption by providing an independent audit report.

Deprivation of motivation

The General Department of Taxation will notify the Council for the Development of Cambodia or the Investment Sub-Committee in the capital provinces to take procedural measures for removing income tax incentives in any of the following cases:

1. The enterprise did not use the capital to expand the Qualified Investment Project (QIPs) for investment in new construction materials and production facilities as proposed.
2. The enterprise did not invest in expanding the QIPs up to the allowed amount before the expiration of the tax exemption period.
3. The enterprise has not fulfilled its tax obligations properly according to the laws and regulations on taxation.

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