



CAMBODIA **TAX AUDIT & TRANSFER PRICING BOOKLET**

Updated to include the Tax
Audit Manual SOPs


ANDERSEN.

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Abbreviations

Term	Definition
AOI	Articles of Incorporation
CGT	Capital Gains Tax
Circular 007	Circular 007 MEF. on Benefits Gained from the Evaluation of Tax Compliance dated August 4, 2017
COI	Certificate of Incorporation
CP method	Cost Plus method
CUP method	Comparable Uncontrolled Price method
DEA	Department of Enterprise Audit
DTCI	Department of Tax Crime Investigation
FBT	Fringe Benefit Tax
GDT	General Department of Taxation
Instruction 10979	Instruction 10979 GDT. on Supporting Documents for the Interest Rate among Related Parties dated May 25, 2022
Instruction 11581	Instruction 11581 dated May 5, 2020 on VAT on the Disposal of Business Assets
LOT	Law on Taxation (2023)
LTD	Large Taxpayer Department
MEF	Ministry of Economy and Finance
NOTR	Notice of Tax Reassessment
Prakas 071	Prakas 071 MEF.BrK.GDT. on Incentives for Voluntary Revision of Tax Returns dated January 30, 2024
Prakas 270	Prakas 270 Prk.MEF. on Tax Audits dated March 13, 2019
Prakas 543	Prakas 543 MEF.Prk. on Tax on Salary dated September 8, 2021
Prakas 574	Prakas 574 MEF.PrK.GDT dated September 19, 2024
Prakas 701	Prakas 701 MEF.Prk. on Tax Registration and Taxpayers' Information Update dated August 14, 2020

Term	Definition
Prakas 986	Prakas 986 MEF.PrK. on Rules and Procedures for Distributing Income and Expenses Among Related Persons (Transfer Pricing) dated October 10, 2017
Prakas 1470	Prakas 1470 MEF.PrK. dated November 6, 2015 on the Rules and Procedures for Handling Tax Appeals
PSM	Profit Split Method
PTOI	Prepayment of Tax on Income
PLT	Public Lighting Tax
RP method	Resale Price method
ST	Specific Tax
Sub-Decree 160	Sub-Decree 160 ANKr.BK. on the establishment of the Special Tax Audit Unit under the General Department of Taxation of Ministry of Economy and Finance dated July 16, 2024
Tax Audit SOPs	Manual on Tax Audit Methods and Procedures for Tax Officials and Taxpayers dated April 9, 2024
TNMM	Transactional Net Margin Method
TOI	Tax on Income
TOI Prakas	Prakas 098 MEF.PrK. on Tax on Income dated January 29, 2020
TOS	Tax on Salary
TP	Transfer Pricing
VAT	Value Added Tax
WHT	Withholding Tax

QUICK REFERENCE GUIDE TO THE MAIN TAXES IN CAMBODIA

Tax on Income

Tax on Income (“**TOI**”) is levied on the annual net income derived from business operations. Resident taxpayers are taxed on their worldwide income, while non-residents are taxed only on Cambodian-sourced income. The standard TOI rate is 20%, rising to 30% for entities in oil, natural gas, or natural resource extraction (e.g. timber, minerals). Insurance companies are taxed at 5% on gross premiums for the insurance or reinsurance of property or risk in Cambodia.

Minimum Tax and Prepayment of TOI

Minimum Tax (“**MT**”) is a separate and distinct tax from TOI, and is calculated at 1% of annual turnover. A taxpayer will be subject on an annual basis to either TOI or MT, whichever is greater. Regardless of whether a taxpayer is subject to MT, a monthly Prepayment of TOI (“**PTOI**”) is still required to be made, which is similarly calculated at 1% of monthly turnover. The monthly PTOI payments can be credited against the MT or annual TOI liability, as applicable.

Tax on Salary and Fringe Benefit Tax

Tax on Salary (“**TOS**”) is a monthly tax levied on employment income that has been received. Resident employees are taxed on their worldwide employment income at progressive rates ranging from 0% to 20%, depending on their income level. Non-resident employees are subject to TOS only on their Cambodian-sourced employment income at a flat rate of 20%. Employers may also provide employees with additional cash or in-kind benefits, such as home leave air tickets or private use of motor vehicles. These fringe benefits are subject to a flat Fringe Benefit Tax (“**FBT**”) of 20% on the market value of the fringe benefits provided to the employee. Employers are responsible for deducting the TOS and FBT from their employees’ remuneration and remitting it to the GDT monthly.

Value Added Tax

Value Added Tax (“**VAT**”) applies to the supply of VAT taxable goods and services consumed in Cambodia at a standard rate of 10%. For local supplies, the tax base is the selling price of the goods or services. Imported goods are taxed on their customs value, plus customs duty and other applicable taxes (e.g. Specific Tax (“**ST**”) on cigarettes). Exports of goods to non-residents or services provided for use outside Cambodia qualify for a 0% VAT rate. For business-to-business e-commerce transactions, there is a reverse charge mechanism for the payment of VAT on imported digital goods and services, whereby the resident business is responsible for remitting the tax to the GDT.

Withholding Tax

Withholding Tax (“**WHT**”) is a tax on the income recipient and levied on specific income types at the time of payment, with the withholding obligation falling on the payer—the Cambodian entity—which must deduct WHT from payments to residents who are not self-assessment taxpayers and non-residents, and then remit it to the GDT. For resident payees, rates range from 4% to 15%, depending on income type (e.g. services, rent, interest). Payments to non-residents incur a flat 14% WHT on Cambodian-sourced income, though tax treaties may reduce this rate.

Advertisement Tax (Signboard Tax)

Advertisement Tax applies to all forms of advertising in Cambodia, both movable and immovable displays. Tax rates vary based on the advertisement’s dimensions, number of characters, and language (higher rates apply if foreign text is included). The tax applies to all individuals and legal entities involved in advertising activities, including advertisers and their agents. It must be declared and paid at the taxpayer’s registered tax office before displaying the advertisement.

Specific Tax

Specific Tax (“**ST**”) is a form of excise tax imposed on the importation or domestic production and supply of certain goods and services (e.g. alcoholic beverages, air passenger services). ST is levied once only;

for imports, this is at the inward checkpoint, and for domestic goods, it is upon the sale from the factory if the products are locally produced.

The ST amount due is calculated by applying the applicable rate to the applicable tax base. For locally supplied goods, ST is calculated on the “ex-factory selling price”, which is defined as 90% of the selling price excluding VAT, Public Lighting Tax (“**PLT**”), and ST itself. For locally supplied services, the tax base is the invoice price of the services supplied. For imported goods, ST is calculated inclusive of customs duty and CIF value, excluding VAT.

Capital Gains Tax

Capital Gains Tax (“**CGT**”) is levied at a rate of 20% on the capital gains derived by resident physical persons and non-residents (both legal and physical). The implementation of CGT was delayed several times but finally began on January 1, 2025 for all but the real estate sector (i.e. immovable property); implementation for that sector has been delayed until the end of 2025.

Taxpayers and withholding agents must submit their CGT declaration in the format specified and remit payment to the GDT no later than three months after realization of the capital gain. However, as of this writing, the GDT has not yet released detailed guidelines on CGT implementation or the CGT tax returns.

Tax on Immovable Property Rental

This tax is imposed on immovable property rentals in Cambodia. Owners or beneficiaries of immovable property who are not taxpayers under the self-assessment regime are liable for the tax, which is levied at 10% of the immovable property rental amount.

Patent Tax

Patent tax is an annual tax levied on business activities. It is paid by all business entities upon establishment and by March 31 each year thereafter. The tax ranges from KHR400,000 to KHR5,000,000 (approximately US\$100 to US\$1,250) depending on the taxpayer's classification, and must be paid for each separate business activity, and for each branch located in a different province.

Registration Tax

Registration Tax (also known as stamp duty or transfer tax) is imposed on the transfer of ownership of immovable property, shares, and all means of transportation (at 0.1% or 4%, depending on the type of property transferred); the registration of government contracts related to the supply of goods or services (at 0.1% of the contract value); and certain legal documents (at a flat rate of KHR1 million). For transfers, the person who receives the ownership is liable.

Unused Land Tax

Unused land is defined as land without any structure on it or with a structure that remains unused. Unused Land Tax applies only to land outside areas subject to property tax. If property tax is paid on a piece of land, Unused Land Tax does not apply. It is levied annually at 2% of the market value per square meter, as determined by the Unused Land Valuation Commission, and is payable by the landowner. Starting in 2025, owners or beneficiaries of unused land exceeding five hectares must register with the GDT, declare the tax, and pay it by the annual deadline of September 30.

Accommodation Tax

Accommodation Tax is an indirect tax imposed on the supply of accommodation services at a rate of 2%. The tax base includes the total amount received from customers for accommodation services, along with related charges, excluding VAT and the Accommodation Tax itself. The tax must be declared in the monthly tax return and paid by the 20th of the month after the month the accommodation service was provided.

Public Lighting Tax

PLT is an indirect tax imposed on the supply of alcoholic beverages and tobacco products in Cambodia. The rate is 5% of the taxable supply amount, calculated on the invoice value, excluding VAT and the PLT itself. Manufacturers and importers are responsible for PLT and must declare and pay it monthly, by the 25th of the month following the month the taxable supply was made.

Property Tax

Property tax is a direct tax imposed at a rate of 0.1% on the value of immovable property exceeding KHR100 million (approximately US\$ 25,000) as determined by the Immovable Property Assessment Committee less the KHR100 million threshold. The tax obligation applies to owners, occupants, or final beneficiaries of immovable property. A final beneficiary includes individuals or entities with the right to use the property, such as long-term lessees. Taxpayers must register with the GDT, declare, and pay property tax annually by September 30.

Andersen in Cambodia

We provide outstanding tax, legal and regulatory professional services as a member firm of Andersen in Cambodia, through several locally regulated and qualified entities and individuals. Andersen Global® is an association of legally separate, independent member firms, comprised of more than 17,000 professionals worldwide, over 2,000 global partners, and a presence in over 475 locations in more than 170 countries worldwide. Andersen's growth is a byproduct of the outstanding client service delivered by our people, the best professionals in the industry. Our objective isn't to be the biggest firm, it is to provide best-in-class client services in seamless fashion across the globe.

We were founded as "VDB Loi Cambodia" in 2012 and have grown to over 100 professional advisers at our office location in the heart of Phnom Penh, building an outstanding reputation for excellent local knowledge and relationships, technical quality that is trusted by the most discerning international clients, and for our tenacious ability to deliver practical results.

We are very proud to have become "Andersen Cambodia" in 2024, with whom we share a clear common vision and core values. As does Andersen, we aim to be the benchmark for quality in our industry and the standard by which other firms are measured.

Introduction

Why this booklet?

Disputes between tax authorities and taxpayers are common in any jurisdiction. Cambodia, a rapidly developing economy, introduced modern income tax in the late nineties. Over the last two decades, tax collections have surged from less than 10% of GDP to nearly 20%, indicating a strengthening of the GDT's capabilities in an environment of growing compliance. In such an environment, tax audits and related disputes play a significant role for enterprises and foreign investors conducting business ventures in Cambodia.

This booklet is designed to equip business executives with essential knowledge to navigate the tax audit process in Cambodia. It provides a comprehensive overview, from the initial site visits and requests for information to protests, interest and penalties, and dispute settlements. Additionally, it includes a summary of common tax audit issues.

This booklet also delves into one of the most critical tax challenges facing businesses today: transfer pricing. As Cambodian tax audits increasingly scrutinize revenue and profit adjustments, both within and beyond the scope of transfer pricing, we offer a detailed review of the relevant rules and audit practices in this area.

Where can you find the legal rules and regulations on tax audits?

Most of the fundamental rules are included in the Law on Taxation ("**LOT**"), particularly Articles 209 through 241. The LOT's official language is of course Khmer, but as it was first prepared in English with the assistance of international experts, very reliable English language versions exist for most parts of the LOT.

The key regulation is Prakas 270 MEF.PrK dated March 13, 2019 on Tax Audits ("**Prakas 270**") which sets out many of the details and operational matters that are reviewed in this booklet. A number of other regulations are also relevant:

- Circular 007 MEF. dated August 4, 2017 on Benefits Gained from the Evaluation of Tax Compliance ("**Circular 007**")

- Prakas 986 MEF.PrK. dated October 10, 2017 on Rules and Procedures for Distributing Income and Expenses Among Related Persons (Transfer Pricing) (“**Prakas 986**”)
- Prakas 009 MEF.PrK dated January 12, 2021 on the Classification of Taxpayers under the Self-Assessment Regime
- Prakas 701 MEF.PrK. dated August 14, 2020 on Tax Registration and Taxpayers’ Information Update (“**Prakas 701**”)
- Prakas 1470 MEF.PrK. dated November 6, 2015 on the Rules and Procedures for Handling Tax Appeals (“**Prakas 1470**”)
- Sub-Decree 160 ANKr.BK. dated July 16, 2024 on Establishment of a Special Tax Audit Unit (“**Sub-Decree 160**”)
- Prakas 962 MEF.PrK dated 20 November 2021 on Tax Arrears Management

Furthermore, in 2024, the General Department of Taxation (“**GDT**”) issued a manual on tax audit methods and procedures, also referred to as the “**Tax Audit SOPs**”, and a manual on tax crime investigations. Both manuals were included in the review for this booklet.

Hierarchy of legislation in Cambodia:

- 1. Sub-Decrees:** Executive regulations adopted by the Council of Ministers and signed by the Prime Minister. They are used to implement and clarify provisions in existing laws as well as to define the functions and duties of government bodies or appoint government officials. Sub-Decrees are legally binding.
- 2. Prakas:** Ministerial or inter-ministerial orders issued by one or more ministers to clarify or enact specific provisions under existing laws or Sub-Decrees. Prakas are legally binding.
- 3. Circulars:** Administrative instructions signed by the Prime Minister and/or relevant ministers intended to interpret, guide, or provide instructions on how regulations should be applied. They are not legally binding.
- 4. Instructions:** Detailed guidance notes or operational manuals issued by ministries or agencies to direct subordinate offices on procedural matters, with purely administrative effect.

Note that although circulars and instructions are not legally binding, taxpayers should treat them as de facto rules. The GDT uses these to enforce compliance, and ignoring them could trigger audits or disputes.

How many audits are carried out by the General Department of Taxation each year?

The General Department of Taxation (“**GDT**”) conducts approximately 4,000 tax audits annually. These audits are performed by the Large Taxpayer Department (“**LTD**”) and the Department of Enterprise Audit (“**DEA**”).

Entities classified as “large” or “medium” taxpayers (see the next page for definitions) are typically audited each year, often undergoing several types of tax audits. If you have a company in Cambodia, it is likely that you have experienced tax audits on an annual basis.

Different categories of taxpayers and how they are audited

Most companies are subject to one “**comprehensive audit**” (this term is explained below) per financial year, which can take several years to complete. In addition, less extensive audits, such as “**limited audits**” and “**desk audits**,” are conducted for the same financial years. The General Director of the GDT may assign joint audits to reduce the overall number of audits. However currently, many tax-registered businesses have several ongoing tax audits at any given time.

Cambodia’s tax administration system recognizes five main categories for auditing business taxpayers:

- 1. Taxpayers holding a gold tax compliance certificate:** These taxpayers, referred to as “gold taxpayers” have obtained a gold tax compliance certificate under the GDT’s program. According to the previous regulation, Circular 007, gold taxpayers were subject to only one comprehensive audit every two years and were exempt from limited and desk audits, unless requested by the taxpayer. The recently introduced Tax Audit SOPs indicate that gold taxpayers may not be audited at all. However, the GDT still permits audits of gold taxpayers “in the event of risk or irregularity.” Therefore, in practice, some audits may still affect gold taxpayers.
- 2. Large taxpayers:** It is rather easy for a taxpayer to qualify as a “large taxpayer”. Criteria include significant annual turnover or business assets, which vary by sector (agricultural, service and trading, or industrial). Additionally, branches of foreign companies, subsidiaries of multinational corporations, and entities registered as qualified investment projects are automatically considered large taxpayers. Consequently, any company with a foreign majority

shareholder is regarded as a large taxpayer, even if it is not large in terms of capital, assets, or revenue.

The LTD conducts limited audits and desk audits of large taxpayers, typically one of each kind per financial year. Additionally, the DEA conducts a comprehensive audit almost every financial year.

3. **Medium taxpayers:** Medium taxpayers include taxpayers with moderate annual turnover and business assets, which vary by sector (agricultural, service and trading, or industrial). Entities also qualify if they are incorporated as a legal entity, representative office, or if they are national and subnational government institutions, associations, non-governmental organizations, diplomatic missions, international organizations, or technical cooperation agencies.

Their limited audits and desk audits are conducted by the tax branch where they are registered, while comprehensive audits are conducted by the DEA.

4. **Small taxpayers:** These are mostly businesses, such as sole proprietorships, that are not companies. They are not subject to the full range of self-assessment obligations and are not included in the regular audit program except at the time of deregistration from the GDT and Ministry of Commerce.
5. **Unregistered businesses and individuals:** Businesses that do not register for taxes remain outside the tax administration's oversight. The GDT has the right to impose tax registration on them. Individuals are not audited per se, as Cambodia has not implemented a Personal Income Tax regime. Individuals are only taxed through withholding by registered taxpayers, such as for salary and service fees.

What kinds of audits does the GDT conduct and what are the differences?

Cambodia conducts three types of regular tax audits (i.e. outside of a criminal context): desk audits, limited audits, and comprehensive audits, as set out in Prakas 270.

Desk audits are different from limited and comprehensive audits because they do not involve any site visits.

Limited audits typically apply to one particular year and do not include verification of the annual Tax on Income (“**TOI**”). However, it is possible to have multiple limited audits being conducted simultaneously.

Comprehensive audits are a review of all taxes and may cover one or several consecutive years.

In addition, some tax audits may be handed over to the Department of Tax Crime Investigation (“**DTCI**”) as a tax crime investigation in cases of suspected tax evasion.

A summary of the key aspects of the various types of audits in Cambodia is provided in the following table:

Audit aspect	Desk audit	Limited audit
What it is	A re-examination of tax returns conducted by a tax official at the GDT's office.	A more in-depth re-examination of monthly tax obligations; the annual TOI is not included.
Conducted by	The LTD (for large taxpayers) or tax branches (for medium taxpayers)	
Scope of audit	Identify any inconsistency between the tax return and other information collected by the GDT (straightforward to solve).	On-site audit at the taxpayer's business premises and inspection of the tax returns, actual business activities, accounting records, and other relevant supporting documents.
Audit coverage period	Can only be carried out within 12 months after submission of the tax return.	Can be carried out for the current tax year (N) and the immediately preceding tax year (N-1) only.

Comprehensive audit	Audits under the Special Tax Audit Unit
A more thorough re-examination of all types of taxes and includes an assessment of the taxpayer's accounting records.	Established under Sub-Decree 160, the Special Tax Audit Unit expedites resolution of complex tax cases, focusing on high-risk taxpayers and those with special compliance status. It exclusively conducts comprehensive audits.
DEA	Conducted by the Special Tax Audit Unit under the GDT, with taxpayer selection determined by a committee through risk assessment. Exact criteria remain unofficially clarified but prioritize high-risk profiles.
On-site audit at the taxpayer's business premises and detailed inspection of all types of taxes and an assessment of the taxpayer's accounting records.	Targets gold compliance taxpayers and others flagged as high risk, performing in-depth reviews of financial records and compliance. Audits are comprehensive, unlike limited or desk audits.
Can be carried out for the current tax year and the previous three tax years (N-3) or five tax years (N-5), or exceptionally, up to 10 years with prior approval from the Ministry of Economy and Finance ("MEF").	Mirrors comprehensive audits, typically spanning multiple fiscal years.

Which departments within the GDT are involved in tax audits, and what do they do?

As previously mentioned, the **LTD** and the **DEA** conduct the majority of tax audits for large and medium registered taxpayers in Cambodia. However, the GDT comprises a wide range of other departments and branches, some of which also play key roles in tax audits and disputes, as discussed below.

The Department of Law, Tax Policy, and International Tax Cooperation, often referred to as the Litigation Department, is particularly noteworthy. This department, through its Litigation Bureaus 1 and 2, takes over disputes from the LTD and DEA in certain cases. It also oversees and advises the internal team on tax audit matters, visits taxpayer offices to present Notices of Tax Reassessment ("**NOTRs**"), supervises the audit process, and prepares monthly, quarterly, and annual reports for the department head.

The Department of Tax Crime Investigation becomes involved when the GDT uncovers significant taxpayer misconduct or intent to evade taxes, such as issuing false tax invoices to claim Value Added Tax ("**VAT**") refunds. In such cases, the audit is forwarded to this department for further action.

The Department of Small and Medium Taxpayers manages all tasks related to small and medium taxpayers, including overseeing the regular desk and limited tax audits conducted by the tax branches, monthly tax filings, and annual TOI submissions.

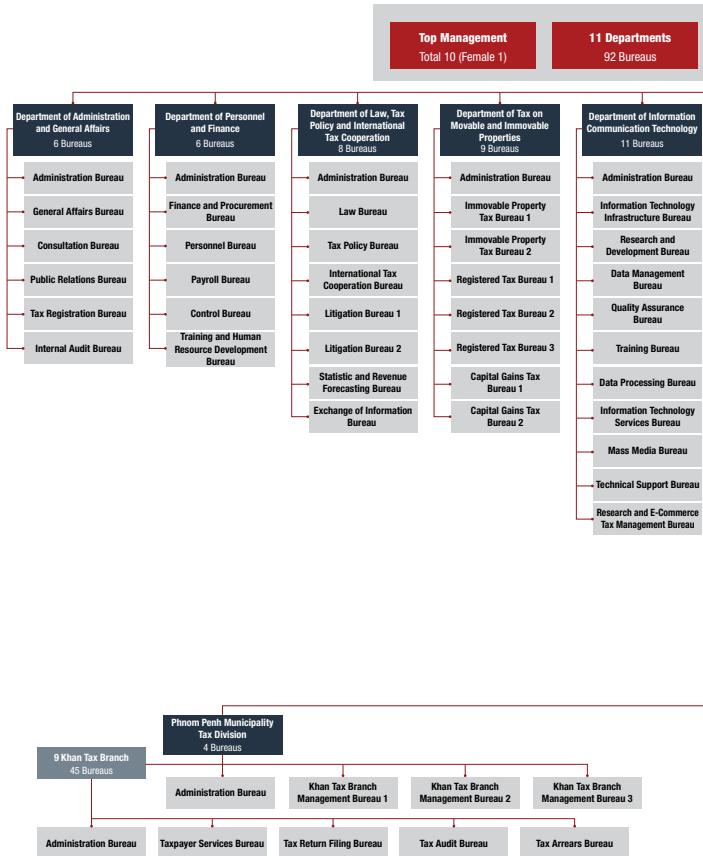
Additionally, under Sub-Decree 160, a new **Special Tax Audit Unit** was established within the GDT. This unit, equivalent in status to the LTD and DEA, was created to expedite the resolution of special tax audit cases. It will exclusively conduct comprehensive tax audits, selecting taxpayers based on risk assessments. Taxpayers under the jurisdiction of this new unit include those with gold compliance status and other "special" taxpayers identified through evaluations by a yet-to-be-established GDT committee. The specific criteria for this evaluation have not yet been officially clarified.

Some other noteworthy offices are:

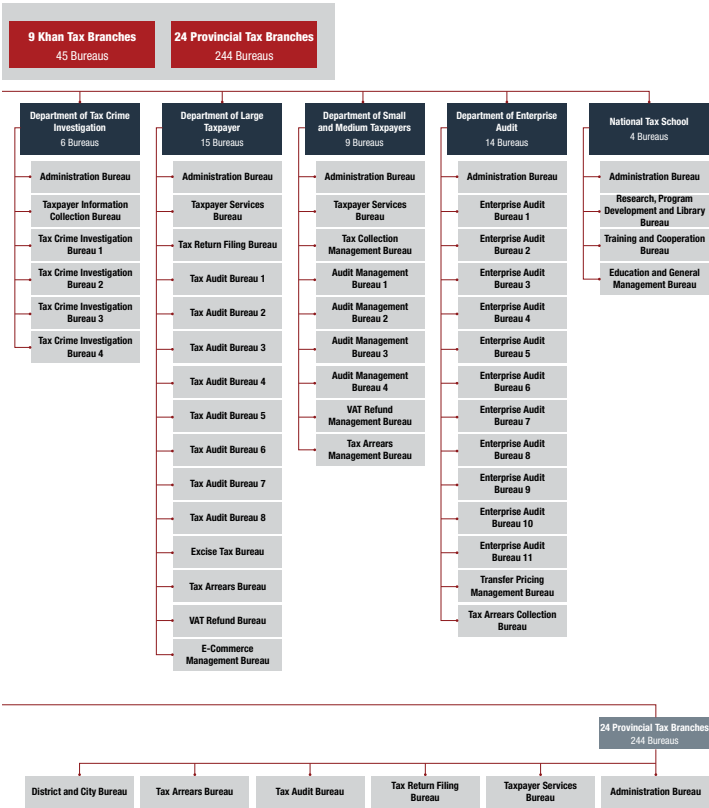
- **The Tax Arrears Bureau in the LTD:** Responsible for the collection of the tax debts of small and medium taxpayers at each tax branch in Cambodia specifically under the LTD.
- **The VAT Refund Bureau in the LTD:** Handles the VAT refund requests of medium and large taxpayers. This may also involve verifications by the tax authority prior to refunds being paid.
- **Transfer Pricing Bureau in the DEA:** Prepares internal policies for transfer pricing (“TP”) and analyzes price limitation.
- **Tax Arrears Collection Bureau 10 in the DEA:** Is responsible for the collection of the tax debts of large taxpayers specifically under the DEA.



អគ្គនាយកដ្ឋានពន្ធដារ



General Department of Taxation



Which officials actually carry out tax audits?

All comprehensive audits are conducted by the DEA, while limited and desk audits are carried out by either the LTD or the tax branches, depending on the type of taxpayer.

The GDT has approximately 3,000 employees (in 2021) and about 700 of those are engaged in conducting tax audits for different departments. The DEA, which conducts comprehensive audits, has about 240 employees.

Tax audits are conducted by authorized officials of the various departments of the GDT that are concerned with tax audits (see above). There are no fixed rules on which official or team is appointed to which taxpayer. There is no fixed rule to determine the number of tax officials involved. There are always at least one tax auditor and one tax supervisor, but the actual size and composition of the teams are largely determined on a case-by-case basis. The deputy director or director of the department usually decides whether or not the information and documentation provided by the taxpayer are acceptable. The audit officials cannot decide on their own and cannot sign off on the tax audit. That is done by a higher-level official, with certain special cases going up to the highest level of the GDT, the General Director.

PART I: TAX AUDITS

Chapter 1: The GDT's reform of the tax audit process

The manual on tax audit methods and procedures

In April 2024, the GDT introduced the Tax Audit SOPs, a move aimed at improving transparency and efficiency in tax audits. These SOPs come at a time when the GDT is conducting around 4,000 audits annually, many of which extend over multiple years due to their complexity. The introduction of the SOPs is a significant step toward streamlining these processes.

Gold taxpayers are exempt from routine tax audits

The first major change the Tax Audit SOPs introduce is the exemption of gold taxpayers from routine tax audits while their compliance certificates remain valid. This exemption, however, is contingent on the absence of detected risks or irregularities.

A risk or irregularity signifies potential issues identified by the GDT prior to an on-site audit, such as discrepancies between monthly and annual tax declarations. The GDT uses various methods to assess these factors, including analyzing the taxpayer's tax return history, business operations, and accounting practices (see *"Why and how are you selected for a tax audit?"* in Chapter 2 for details).

However, the SOPs only provide a broad framework for risk assessment, leaving some uncertainty about how this exemption for gold taxpayers will be applied in practice. Consequently, there's a risk that gold taxpayers may still have to undergo routine audits despite the stated exemption.

Streamlined desk audit process

Another key change is the new, streamlined desk audit process. The SOPs introduce a new desk audit process featuring a two-strike system. Upon identifying discrepancies, the GDT issues an initial notice to the taxpayer, who then has 30 working days to self-correct and pay any additional tax without incurring interest charges. If the taxpayer wants to dispute the discrepancies, they can submit a written response within the same period. The GDT has another 30 working days to review and

either accept or reject the explanation. Unresolved issues after a second notice may escalate to an on-site audit, potentially leading to a more thorough examination of the taxpayer's business.

Combined audits and new time limits

To address the challenge of overlapping audits, the SOPs permit combined audits in special cases, which must be authorized by the General Director of the GDT. While this concept is not entirely new—Article 8(4) of Prakas 270 already stipulates that: *“In any **special case**, the General Director of the General Department of Taxation may allow a unit or multiple units to conduct a joint audit on the enterprise.”*—what qualifies as a “special case” remains somewhat ambiguous. It is also unclear whether combined audits are automatically initiated by the GDT or if a taxpayer must apply for them.

The SOPs also establish new time limits for audit completion: desk audits must be completed within 12 months of the tax return filing date, and on-site audits (both limited and comprehensive) must be finished within one to six months, with a deadline for completion by the first quarter of the following year. However, these timelines are dependent on the taxpayer's prompt provision of “**sufficient**” documentation and information, a term that remains undefined in both the Tax Audit SOPs and Prakas 270.

Other important changes from the Tax Audit SOPs

- **Reduced documentation burden:** The SOPs aim to minimize duplicate document requests by requiring the audit department to use information already provided by the taxpayer during tax registration and in filed tax returns. However, the GDT can still request additional documents if necessary.
- **Enhanced recordkeeping and transparency:** Tax auditors are now mandated to document all verification of accounting records and taxpayer interviews, with these records requiring the taxpayer's signature and stamp. This formalizes existing practices, promoting greater transparency.
- **Clarified deadlines:** The SOPs clarify timelines for both GDT and taxpayer responses (e.g. tax corrections and payments, written requests, protests), replacing ambiguous terms like “60 days” with “within 60 working days,” improving accuracy in calculating response windows.

The tax crime investigation manual

In addition to the new Tax Audit SOPs, a tax crime investigation manual was promulgated on April 9, 2024. Similar to other tax administrations worldwide, the Cambodian GDT has a dedicated tax crime investigation function for investigating and prosecuting criminal offenses related to tax provisions, and taking legal action through court procedures when necessary.

The primary objective of tax crime investigations is to prevent and combat tax evasion and other activities that obstruct the enforcement of tax laws, which can result in significant revenue losses for the national budget. To ensure that taxpayers under the self-assessment regime accurately file their tax returns and comply with tax laws, the GDT is empowered to review, analyze, and verify tax declarations. This includes the authority to reassess tax returns for up to 10 years and investigate potential tax crimes.

When hard evidence indicates intentional tax evasion or other criminal offenses related to tax provisions, the GDT has the authority to pursue legal action against the perpetrators in accordance with the Code of Criminal Procedure.

What are the criminal offenses related to tax provisions?

Criminal offenses related to tax provisions include tax evasion, obstruction of the implementation of the tax provisions, and several other activities outlined in Articles 245, 246, 247, 249, and 250 of the LOT, such as providing tax services as a tax agent without a license or collecting taxes without permission.

Tax evasion, as defined by the LOT, refers to “*any acts committed willfully and with premeditation, organized with the intention of evading the tax amount that the taxpayer is required to pay*” (Article 26, Paragraph 1). According to Article 224 of the LOT, a taxpayer is considered to have committed serious negligence if the tax amount paid is less than the amount determined by tax provisions by 10 percent or more. If a taxpayer or withholding agent commits this serious negligence on two separate occasions within a period of three calendar years, or on three or more separate occasions within a period of 10 years, they are deemed to have committed tax evasion.

Obstruction of the implementation of the tax provisions, as defined in Article 225 of the LOT, is a common focus of tax audits, where the

GDT may impose penalties based on alleged taxpayer violations, such as failure to provide information or submit a response when requested by the GDT.

Investigation of tax-related criminal offenses

According to the GDT's presentation of the new manual on July 17, 2024, the investigation of tax-related criminal offenses involves an "*in-depth investigation and search to uncover the root causes and evidence of these offenses.*" The goal of such investigations is to recover lost tax revenue, including additional taxes and interest, and to establish the existence of offenses that warrant criminal prosecution and punishment.

What are the rules and procedures for such criminal investigations?

First, it is important to know that the statute of limitations for criminal prosecution of tax-related offenses is five years, as outlined in Article 10 of the Code of Criminal Procedure. However, for cases involving obstruction of the implementation of the tax provisions, the period for tax reassessment extends to 10 years (Article 210, Paragraph 2b, LOT).

The DTIC under the GDT is responsible for conducting tax-related criminal investigations. The DTIC collects information from various sources, such as the customs authorities and the GDT's taxpayer data management system, to identify risk factors that indicate potential tax evasion or other criminal activities. When clear evidence is found, the DTIC prepares a case file and requests permission to commence an investigation in accordance with existing laws.

Once permission is granted, if the taxpayer in question is already undergoing a regular audit, that audit is paused, and the case is referred to the DTIC for criminal investigation. If the investigation does not result in a court petition, the case is returned to the original audit unit to resume the regular audit.

On-site investigation

During a criminal investigation, tax investigation officials have the authority to conduct searches at **any location** through a **search warrant**, with support from the General Commissariat of National Police or other relevant law enforcement agencies. Officials can enter the taxpayer's business premises (or other places deemed as business premises) to examine accounting records, tax documents, and other relevant materials. Although site visits are typically conducted during

business hours, officials have the legal right to conduct searches at any time, as stipulated by the warrant.

Upon entering the premises, tax officials can copy or seize documents, including electronic records, install control instruments, seal detained goods, and place liens on the taxpayer's property to secure tax liabilities. In cases of criminal violations, they can even detain the taxpayer. Only tax officials accredited as judicial police officers or agents are authorized to carry out these investigative operations and remand suspects into custody. If evidence of tax evasion is found, the DTIC can request information from domestic banks about the taxpayer's accounts and may even freeze those accounts.

After the on-site investigation, the tax investigation officials must compile evidence, identify offenses and perpetrators, and assess the amount of tax evasion. They also have the authority to interview or summon the taxpayer and any related persons for questioning, as outlined in Articles 193, 194, and 202 of the LOT and Article 114 of the Code of Criminal Procedure. Those summoned must appear in person and cannot delegate this responsibility. Repeated failure to appear can lead to an arrest warrant issued by the Prosecutor's Office of the Municipal Court of First Instance.

Post-investigation

Once the investigation is complete, the taxpayer is typically invited to a meeting with the tax investigation official to review the findings. If the investigation does not lead to a court petition, the case is referred back to the relevant tax audit unit to continue the regular audit. However, if the case is escalated to the court, taxpayers may **avoid the court case** by paying the owed taxes, along with any additional taxes and interest. The decision on whether to proceed with prosecution is then sent to the MEF for final review and determination.

What rights do taxpayers have during a tax crime investigation?

Under Article 193 of the LOT, taxpayers are granted specific rights during a tax crime investigation. These rights include:

- **Confidentiality:** The taxpayer's information is to be kept confidential and used solely for the purpose of the investigation.
- **Regular updates:** Taxpayers have the right to receive regular updates on the status of their tax assessment or investigation, as outlined in Articles 199 and 211 of the LOT.

- **Right to appeal:** Taxpayers can appeal any decisions made by the GDT, in accordance with Articles 211 and 238 of the LOT.
- **Limit on tax liability:** Taxpayers are entitled to pay no more than the amounts determined by the tax provisions, as specified in Article 213 of the LOT.

Additionally, the manual on tax crime investigation specifies that if a taxpayer believes that tax investigators have violated their code of ethics, discipline, or professionalism, they have the right to report or file a complaint. This can be done through the Committee for the Management of Tax Audits and the Investigation of Criminal Offenses on Tax Provisions of the GDT, the General Department of Internal Audit of the MEF, or the Tax Arbitration Committee of the MEF.

Formation of the Special Tax Audit Unit

Furthermore, the GDT has established a Special Tax Audit Unit under Sub-Decree 160. This unit has been created to expedite the resolution of complex tax audit cases and is designed to operate with a focus on high-risk taxpayers and those with special tax compliance statuses.

- **Purpose and function:** The Special Tax Audit Unit is tasked with conducting comprehensive audits on selected taxpayers. Unlike regular audits, which may involve desk audits or limited audits, this unit **only** performs comprehensive audits.
- **Targeted taxpayers:** The unit focuses on taxpayers with gold compliance status and other special taxpayers identified through a risk assessment process. The criteria for selecting these taxpayers are determined by a committee established by the GDT, although the exact criteria have not yet been officially clarified.
- **Impact on gold taxpayers:** Taxpayers holding a Gold Compliance Certificate can now be audited by the Special Tax Audit Unit, especially if they are flagged as high-risk or if irregularities are detected. While the Tax Audit SOPs previously suggested that gold taxpayers would be exempt from audits, the establishment of this unit indicates that they are not entirely exempt after all.

Chapter 2: The start of the tax audit

How are you notified of an audit? Are surprise tax audits allowed?

The GDT is required to issue a Notice of Audit to the taxpayer and as per Article 9, paragraph 6 of Prakas 270, the tax audit will commence within 10 working days of receipt. However, in special cases (e.g. suspected tax fraud, evasion, or other forms of non-compliance), as mentioned in Articles 100 and 116 of the LOT, the GDT can perform a tax audit without prior notice.

The notice will come with a relatively standardized request for documents and information and must state the period or years under audit and the taxes that will be verified.

It will be sent to the taxpayer's current address according to the GDT's information on the taxpayer, which the taxpayer is responsible for keeping up to date. It does not suffice to register a change with the Ministry of Commerce alone, as the GDT keeps its own records. In other words, in cases where the taxpayer has changed their business address without notifying the GDT, the Notice of Audit will be sent to the last address on record.

According to the guidelines in Article 9 of Prakas 270, the Notice of Audit is considered properly delivered when sent to the taxpayer or their representative, even if the taxpayer rejects or refuses to receive the mailed letter. The date of the Notice of Audit is determined by the post office stamp on the mailed letter.

If traditional mail is not feasible, alternative methods may be used, such as affixing the notice to the taxpayer's residence or business location or publishing it in the media, with a requirement for the taxpayer to appear at the tax administration within 15 days of publication.

How far back can past financial years be audited?

The timing for how far back a tax audit can be conducted depends on the type of audit:

- A desk audit is typically conducted within 12 months of the tax return filing date at most.
- A limited audit can be conducted for only the current tax year (N) and the previous tax year (N-1).
- A comprehensive audit typically is conducted for a period of up to

three years prior (N-3). However, if there is clear evidence of tax evasion, a loss, or a carry-forward of tax credits from the current or previous tax periods, a comprehensive audit can extend up to five years (N-5). In cases where there is a necessity and clear evidence of tax evasion, an audit covering more than five years (up to 10 years) can be conducted, but this requires special permission from the MEF on a case-by-case basis.

Why and how are you selected for a tax audit?

The Tax Audit SOPs state that the GDT utilizes a risk-based approach to select companies for tax audits. This involves gathering information and conducting a comprehensive analysis to identify potential areas of non-compliance. For instance, a desk audit might be triggered by discrepancies in tax return data, such as mismatches between VAT supplies and turnover for Prepayment of Tax on Income (“PTOI”) calculations.

By collecting and analyzing vast amounts of financial data from registered taxpayers’ tax returns, the GDT can pinpoint irregularities, trends, and key financial ratios (like profit margins) that suggest a higher risk of non-compliance. These factors, along with other red flags identified through risk assessment, can prompt the GDT to initiate on-site audits, which can be either limited or comprehensive in scope.

According to the Tax Audit SOPs, the GDT’s risk assessment process is as follows:

- **General examination of the business:** This initial review examines a company’s overall tax history, business activities, accounting practices, and other relevant details. Specific areas of focus include:
 - Irregularities or missing tax returns
 - Extended periods without tax payments
 - Frequent low tax payments
 - Past tax issues
 - Unusual debt cancellations
 - A high number of related party transactions
 - Frequent transactions with low-tax jurisdictions
 - Frequent changes to invoices or invalid invoices
 - Consistent annual losses
 - Significant fluctuations in profit margins

- High volume of cash transactions
- Discrepancies during data verification
- Information obtained from third-party sources
- **Financial statement and tax return analysis:** The GDT scrutinizes financial statements and tax returns to identify potential discrepancies or risks. These include:
 - Unexplained or significant changes in specific accounts or their relative proportions
 - Inconsistencies between financial statements and tax returns
 - Information in the notes to the financial statements or independent audit reports (if applicable)
- **Financial ratio analysis:** The GDT analyzes various financial ratios calculated from the company's financial statement information. These ratios compare data within a single statement, across different statements, or with industry benchmarks. This helps identify potential anomalies, such as:
 - Issues with debt affordability and repayment capacity
 - Unusual cash flow generation patterns
 - Deviations from industry-standard profitability levels
 - Discrepancies between profit margin and asset levels

Since registered taxpayers all file their returns and statements to the GDT's online platform, most of the needed data are readily available in the GDT's databases, so the GDT can fairly easily identify various discrepancies or unusual trends in profit margins, operating margins, losses, and other financial and tax data.

The auditing departments then choose the entities to be audited based on the criteria set out in Article 7 of Prakas 270, prepare audit programs and plans in accordance with the type of entity, and send the information to the responsible department at the GDT for review and decision.

What is the significance of gold/silver/bronze compliance status for tax audits?

In Cambodia, taxpayers qualify for gold, silver, or bronze status based on an assessment of 12 criteria on a 20-point scale (see below). Gold status translates into a reduced tax audit program. More specifically, Circular 007 of 2017 provides that gold taxpayers will not be subject to a limited audit or a desk audit, and are only subject to one comprehensive audit per financial year, at the most. The Tax Audit SOPs state that as a principle, gold taxpayers will not need to undergo tax audits. However, the Tax Audit SOPs also state that audits remain possible, even for gold taxpayers, in case of “irregularities”.

Important Tip: If you want to minimize the cost of dealing with tax audits, obtaining gold compliance status for your company is the best way to reduce the number of audits.

Gold (score of 16-20 points)

- Receive a gold tax compliance certificate that is valid for two years.
- Entitled to VAT refund processing of amounts less than KHR500 million without having to undergo a tax audit.
- Subject to reduced tax auditing (notably, no limited audit or desk audit).

Silver (score of 11-15 points)

- Receive a silver tax compliance certificate, which is valid for two years.
- Entitled to VAT refund processing of amounts less than KHR200 million without having to undergo a tax audit.
- Remains subject to limited audits and desk audits.

Bronze (score of 1-10 points)

- Receive a bronze tax compliance certificate, which is valid for two years.
- Required to implement their tax obligations in accordance with the laws and regulations in force.

The criteria and points assigned for the process are shown in the table below:

No.	Criteria	Points
1	Has completed its tax registration and tax registration renewal	1
2	Has notified the GDT of any change in registration information	1
3	Has submitted tax returns regularly and on time	1
4	Has paid the proper amount of tax payable as declared on time	1
5	Has maintained accounting records, and legal and supporting documents as required	2
6	Has issued proper invoices as stated in the tax laws and regulations	2
7	Has not committed any act of negligence as stated in Article 125 of the LOT	2
8	Has not committed any act of serious negligence as stated in Article 126 of the LOT	2
9	Has paid the tax payable, additional tax, and interest determined by the GDT	2
10	Has not created or provided false records, documents, reports, or information	2
11	Has cooperated with and allowed the GDT to inspect its accounting records and other documents	2
12	Has not been found to be using (non-arm's length) transfer pricing with its related parties	2
Total		20

What is the process to obtain gold, silver, or bronze compliance status?

Step 1: The taxpayer submits a letter to request assessment of its compliance by the GDT, with the following documents:

- Sales invoices
- Lodged TOI returns
- Audit reports
- Notice of Tax Audit (last two years)
- Copy of their VAT certificate, patent tax certificate, etc.

Step 2: The GDT crosschecks the submitted documents and evaluates the taxpayer on the 12 criteria.

Step 3: After evaluation, the GDT calculates the taxpayer's score and issues a gold, silver, or bronze compliance certificate as applicable.

Why are there different tax audits for the same year and overlapping open audits?

In practice, different tax audits by different teams of the GDT, or even different departments, frequently overlap. The audits have different scopes and often, the slow pace of resolving audits means that for example, a limited audit for a portion of a tax year is not completed before the comprehensive audit for that entire tax year begins.

In addition, companies (except those with gold status) sometimes have several ongoing comprehensive audits for different years that each take several years to conclude. The comprehensive audit for the next year will have already commenced while the audit for the previous year has not yet been resolved, and so on. This can occur, in theory, for an almost unlimited number of financial years. It is one of the private sector's most voiced frustrations, that each company has a long list of tax audits going back many years.

In recent years, the GDT has taken steps to avoid unnecessary overlapping tax audits. There have been administrative initiatives to ensure that taxpayers will only be subject to one type of tax audit for any one tax year. Also, the Tax Audit SOPs state that the General Director may assign joint audits, which implies that tax audits may be merged. However, currently, multiple tax audits remains the rule rather than the exception.

Why is it important to update your company's address, directors, and other corporate information with the GDT?

Registration with the GDT is required for TOI purposes and, unless a company carries out only VAT-exempt activities, for VAT. The LOT specifies that a taxpayer has 15 days to register for tax purposes from the moment of starting economic activity. Even if someone starts an informal business, as often happens in the e-commerce sector, they are legally required to obtain that tax registration within the 15-day time limit.

Taxpayers' administrative obligations do not stop with registration, however. They are often unaware of the special duty to update their basic registration records with the GDT, or they underestimate its importance. Information such as the address, shareholders, and directors is kept by the GDT separately from the Ministry of Commerce and will be used in disputes. For example, if the GDT is not properly notified of the resignation of a director, it will not be recognized by the GDT, and that director might still be held liable for certain tax obligations.

The rules and procedures of Prakas 701 specify that an entity must notify the GDT of any corporate registration information changes within 15 working days after obtaining approval from the Ministry of Commerce. The main information that must be updated with the GDT are changes in:

- Address
- Type of entity, e.g. branch, representative office, etc.
- Name
- Business activity or the complete cessation of the business
- Shareholders
- Board of directors
- Responsible person for tax matters
- Bank account information
- Phone number and email

The LOT specifies that if, after receiving two written warnings, an entity fails to notify the GDT of any change in registration information, it will be subject to a fine of KHR5 million for continuing to commit an act of obstruction of the implementation of the tax provisions. Hence, it is essential for entities to comply with this obligation.

Important Tip: When your company changes its address, directors, shareholders, etc., it is NOT sufficient to register the change with the Ministry of Commerce only. You MUST notify the GDT as well, or they will be allowed to treat you as if the change never happened.

Chapter 3: Audit site visits and requests for information

The site visit

The site visit is perhaps the most known aspect of the tax audit, even though in reality not much actual verification happens at that time. The Notice of Tax Audit will suggest a date and time for the site visit. In practice, rescheduling often occurs from either side.

According to the Tax Audit SOPs, the tax auditors are required to wear their official uniforms and present their letter of introduction confirming they have been assigned to conduct the tax audit, although in practice, this may vary.

The site visit is typically preceded by a request for information attached to the notice letter, so much of the actual site visit is occupied with the taxpayer handing over the requested documents and information.

The tax auditors are entitled to conduct more than one site visit.

How are tax auditors required to behave during site visits?

The Tax Audit SOPs require tax auditors to be friendly, polite, and dignified but firm. Tax auditors are required to behave in a professional manner, without making intimidating or inappropriate remarks. Furthermore, tax auditors must impose taxes according to the laws and regulations and are forbidden from colluding with taxpayers or third parties to evade the tax laws. No personal payments of any kind are permitted. Favors or incentives are also not permitted. Auditors must avoid conflicts of interest, and this extends to family members.

Tax auditors are not permitted to provide bookkeeping or tax consulting assistance to taxpayers. The Tax Audit SOPs also state that tax auditors should not unnecessarily delay issuing NOTRs.

How are taxpayers or their agents required to behave during site visits?

Taxpayers are not permitted to use inappropriate language, or pressure or intimidation tactics. Gifts or personal payments of any kind are not permitted. Taxpayers or their representatives are also not permitted to cause unnecessary or avoidable delays.

Taxpayers are not permitted to make voice or video recordings of the tax auditors without permission from the persons involved.

Which information is typically requested at the outset?

The first request for information is a standard list of items that could be relevant in a tax audit. This standard list is provided as an annex to the Tax Audit SOPs. Situations might vary on a case-by-case basis, but the following are the most commonly requested documents:

- Entity information:
 - Organizational chart or management structure
 - Certificate of incorporation (“**COI**”)
 - VAT registration certificate
 - Articles of incorporation (“**AOI**”)
 - Other licenses, certificates, or permits for carrying on business as required from the governmental authorities such as the Council for the Development of Cambodia, the Ministry of Tourism, etc.
- Accounting documents:
 - Audited or unaudited financial statements
 - Detailed list of each asset account
 - Detailed list of each owner’s equity and each liability account
 - Detailed list of each income statement account
 - Bank statements
 - Original accounting vouchers
 - Monthly payroll lists
 - Monthly purchase and sales journals
 - Inventory movement report
 - Employment contracts for foreign staff and managers
 - Purchase and sales invoices and import documents
 - Lease or sale contracts
 - Building contracts (if any)
 - Appointment letter for tax agent or representative
- Tax documents:
 - Monthly and annual tax returns and their supporting schedules
 - Adjusted tax calculation table
 - TP documentation (if any)

How much time does the taxpayer have to comply with requests for information?

Tax auditors' further requests for information may vary from case to case, often based on the information they already have from the tax return submissions or from third parties. Taxpayers are typically required to furnish the requested documents within seven days of the auditors' request. In practice, this timeframe can be negotiated with the auditor based on the volume and complexity of the information requested.

If more time is needed, taxpayers can request an extension of up to 30 days with a valid reason (e.g. shortage of staff). For extensions of less than 10 days, taxpayers can make a verbal request directly to the tax auditor in charge. For extensions of more than 10 days (up to 30 days), a written request is required.

The Tax Audit SOPs state that taxpayers are forbidden from causing unnecessary delays in providing requested information.

Can tax auditors ask for copies, take originals, or take files or computers?

Tax auditors will expect the taxpayer to provide electronic or hard copies of what they request. Confiscating originals, hard disks, or other information sources is very rare, except in tax crime investigations.

Per Article 12 of Prakas 270, when tax auditors conduct a site visit to a taxpayer's premises or otherwise legally enter premises (such as publicly open locations), they can:

- Select or copy documents in those areas.
- Confiscate documents or evidence that could be a source of information for assessing taxes to be paid.
- If the location provided by the taxpayer is not suitable for the auditors to carry out their audit or does not have a photocopier, the tax auditors may take the documents to be reviewed to their office with the taxpayer's consent. In this case, all documents must be returned to the taxpayer when the audit is completed.
- If the documents and accounting records are kept in electronic form, taxpayers must provide copies of the documents for the tax auditors' review. If during the examination, the taxpayer cannot provide hard documents, auditors can examine the computer system and copy the electronic records via a copying tool.

Can the tax auditor interview management or company staff?

Yes. The Tax Audit SOPs state that the GDT may interview the head of the entity, the head of each division (such as finance or marketing), and any employee who may have relevant information.

What kind of financial statements are companies required to prepare?

All companies and branches in Cambodia need to prepare annual financial statements based on Cambodian International Financial Reporting Standards.

Companies that exceed two or more of the following thresholds must have their financial statements externally audited by a Cambodian-licensed certified public accountant:

- Revenue > US\$1 million
- Assets > US\$750,000
- Employees > 100

Annual financial statements must be submitted to the Accounting and Auditing Regulator each year. These are not publicly available, except for certain public companies and financial institutions.

Bank statements

Entities are required to provide their bank statements for the period under audit. Not providing banking information in full will lead to a penalty as a unilateral tax assessment. The GDT has a right to ask the National Bank of Cambodia to check whether or not the particular entity has provided all existing bank statements. If the GDT finds that not all bank statements were provided, it could deem the balance in the missing bank statement as taxable income.

Once all bank statements are provided, the GDT will issue a meeting note to confirm that the taxpayer has completely provided all of them.

Important Tip: Review the inflow and outflow of your bank accounts carefully. Keep in mind that many inflows might be seen as taxable income, and many outflows as an expense that triggers Withholding Tax (“WHT”) unless you have solid documentation to prove their true nature.

Corporate documents

The corporate documents of a Cambodian company include the AOI, shareholders' resolutions, the COI, and registration documents. A company's tax registration certificates (VAT and patent tax) must also be available. Furthermore, companies that obtain qualified investment project status will have a certificate of final registration with the Council for the Development of Cambodia.

Corporate documents for both Cambodian companies and foreign branches are critical in an audit, since they provide an understanding of the business operations and financial standing. The key corporate documents and their relevance in an audit are:

- **AOI:** These outline the company's business activities, shareholders, shareholding percentages, operational rules, and importantly, details about remuneration and benefits for directors. Information on shareholders helps tax auditors discern whether they are residents or non-residents (this is important because any dividends paid out to non-resident shareholders are subject to 14% WHT). The shareholding percentages can also reveal related party transactions, which can then be scrutinized under TP rules. Additionally, clauses regarding the compensation of directors may result in deemed salary for directors who do not receive actual remuneration.
- **Meeting minutes:** The record of decisions made during shareholders' and directors' meetings, such as the approval of borrowings from shareholders or the approval of dividends to be paid out, are important and provide the auditors information on related party transactions and non-resident WHT.

Important Tip: If your company directors are not remunerated, be sure to state that in your AOI to avoid tax issues.

Loan documents

Loan documents are essential in tax disputes, especially for related party loans. They prove the terms of the loan, which the tax auditors need to determine if it is a genuine loan or a disguised dividend. Without loan documents, the tax authorities may disallow the interest expense deduction or view the loan as a disguised dividend, resulting in a significant tax liability.

For example, a deemed dividend payment made by a Cambodian subsidiary to its non-resident parent company is subject to 14% WHT.

If the subsidiary does not have loan documents in place, the tax auditors may challenge the validity of the loan and assert that the payment is a disguised dividend. This would result in the subsidiary being required to withhold 14% tax from the payment before remitting it to the parent company.

Instruction 10979 GDT dated May 25, 2022 on Supporting Documents for the Interest Rate among Related Parties (“**Instruction 10979**”) offers relief. Specific documents like loan agreements, business plans, and board resolutions can exempt loans from the arm’s length principle, provided the interest rate does not exceed the market average. Cash advances repaid within a year are also exempt (see more details under the “Required documentation for related party loans” discussion in the Transfer Pricing section).

Important Tip: Loans are one of the most common tax reassessment issues in Cambodia. Prepare and sign contracts and other documentation. If the loan is interest free, prepare a business justification, corporate minutes, and other supporting documents to avoid unnecessary taxes.

Contracts and other documents with group entities: Why could these be relevant in an audit?

Contracts and other documents with group entities are essential for tax audits, as the tax auditors need to determine whether related party transactions have been priced in accordance with the arm’s length principle. Failure to comply with the arm’s length principle could result in a significant tax liability, including additional income tax, penalties, and even the withdrawal of the taxpayer’s tax compliance certificate.

Some documents, such as accounting records, supporting legal documents, and other financial documents, must be kept for 10 years counting from the end of the tax year as stipulated by Article 18(1) of Cambodia’s TP regulations, Prakas 986.

Without supporting documentation, the tax authorities are more likely to challenge the transfer prices and make adjustments for tax purposes.

Additionally, the tax authorities may view the lack of supporting documentation as evidence of tax avoidance, and the taxpayer could be penalized.

For example, a Cambodian bicycle manufacturer, X Co., sells its products to both an unrelated customer, Company A, and its parent company, Company B. While the bicycles are identical, the contractual terms significantly impact the price for each buyer:

Contractual term	Company A (Unrelated)	Company B (Related)
Shipping	F.O.B.: Company A handles shipping costs after the bikes leave the factory.	C.I.F.: X Co. covers shipping, insurance, and all costs until the bikes arrive at Company B's destination.
Type of distributorship	Non-exclusive	Exclusive
Extended warranty	No	Yes

Price impact:

- **Shipping terms:** Company B's price should be higher due to added costs of shipping, insurance, and potential customs fees, reflecting the convenience and reduced risk.
- **Exclusive distributorship:** Company B's price might increase further to account for the profit potential and market control gained through exclusivity.
- **Extended warranty:** Company B's price will likely include an additional premium to cover the extended warranty's value and potential repair costs.

Company B's overall price is not immediately comparable to that of Company A's due to the C.I.F. terms and the effect of the warranty. This demonstrates how various contractual terms influence arm's length pricing, even for identical products, so an understanding of those helps to ensure fair treatment when looking at comparable transactions of related and unrelated customers. While contracts and documentation are crucial for tax audits, contractual terms deserve equal attention.

Carefully consider the impact of shipping terms, exclusivity, warranties, and other clauses on the arm's length price, and be prepared to justify them to the GDT with supporting evidence.

Employment contracts

A written employment contract will help to ensure that the rights and obligations of each party are clearly understood. It will leave no room for ambiguity or future misunderstandings. In tax audits, employment contracts may be relevant as evidence of the salary expense, and to substantiate the existence or lack of fringe benefits. Contracts are also important should a dispute arise, such as in the case of salary before or after tax.

Information related to the stock of goods

Taxpayers must produce a stock movement report that is accurately reflected in their financial reports. Generally, the GDT is interested in the costing process and whether the cost exceeds the sales. It also looks for any movements that are not accounted for in sales reports. Reductions in inventory that cannot otherwise be explained may lead to a reassessment as turnover.

Important Tip: You must create and maintain detailed records to explain inventory variations, including waste or destruction of raw materials.

Importation documents

It is crucial to have complete import documents (i.e. customs declaration forms and relevant invoices) readily available for any tax audit because the tax auditors may ask for them at any time to crosscheck with the purchase records from the monthly tax declarations to verify input VAT as well as any VAT refund requested.

Tax auditors may request a reconciliation in an Excel spreadsheet to support any differences between the monthly purchase records and the import documents for their evaluation and consideration. If proper import documents are missing, the GDT may reassess the taxpayer by eliminating the cost of sales and thus adjusting the taxable net profit upwards.

Important Tip: Possessing imported goods without evidence of their proper importation and customs clearance (including if the importer was someone else) may result in hefty fines and liabilities imposed by the customs authorities.

What kind of information is the GDT able to receive from other government departments?

The GDT has access to various types of information from other government departments, which it can use during tax audits and investigations. According to the Tax Audit SOPs, the GDT should leverage information already provided by taxpayers, reducing the need for duplicate document requests. Below is an illustrative list of the most common types of information that GDT officials can obtain from other government departments:

- Bank statements and confirmation letters from the National Bank of Cambodia
- Basic corporate registration information from the Ministry of Commerce
- Customs declarations for imports and exports from the General Department of Customs and Excise's system, which since 2023 is interconnected with the GDT's system.
- Information resulting from crosschecking with the GDT's e-filing system

Can the taxpayer refuse to provide certain information or documentation?

There is little support in the LOT for taxpayers to refuse to cooperate with information requests by the tax auditors. Nevertheless, in practice, taxpayers may at times invoke a number of exceptions, with or without a clear legal basis:

- Information that is not in the taxpayer's possession
- Information that is logistically impossible or very difficult to retrieve
- Information that has no bearing on the company's tax position
- Information that is outside of the time period stated in the Notice of Tax Audit
- Information that is beyond the company's duty to keep in its accounting records

What rights do taxpayers have during the audit?

Taxpayers rights during audits are set out in the LOT, particularly its Chapter 17; in the Tax Audit SOPs, Chapter 3; in Articles 5 and 15 of Prakas 1470; in Sections 1 and 4 of Instruction 7374 GDT on the Rights and Obligations of Taxpayers or Withholding Agents for Handling Tax Complaints at the GDT issued by the GDT dated May 4, 2017; and Article 14 of Prakas 270.

- Taxpayers have the right to receive an explanation of the audit results regarding:
 - Acceptance or objection to any part or all of the taxpayer's tax returns.
 - Any tax regulation violations found.
 - The basis of the tax reassessment and the tax regulations used for the reassessment.
 - The tax amount to be reassessed.
- Taxpayers can give comments regarding whether they agree or object to any part or all of audit results; they should be prepared to show additional documentation to support their objection.
- Taxpayers have the right to choose a legal representative by giving them written authorization.
- Taxpayers who are not satisfied with any tax assessment, tax reassessment, tax collection, final decision, or other GDT measures have the right to file a complaint to the General Director of the GDT within 30 working days from the date of receiving the notification letter of the final decision or other measures taken by the GDT.
- A complainant who is not satisfied with the final decision of the General Director of the GDT or the final decision rejecting the complaint, can file a complaint to the Tax Arbitration Committee within 30 working days from the date of receiving the notification letter on the GDT's final decision on the complaint, or final decision rejecting the complaint.

Minutes of tax audit meetings

With the introduction of the Tax Audit SOPs, there is now a requirement for the tax auditors to document all verification of accounting records and taxpayer interviews. These records must be signed and stamped by the taxpayer or their representative. Although this practice may have already been in place in many cases, the Tax Audit SOPs now make it a

formal requirement, ensuring that both parties have a clear and agreed-upon record of the audit process.

How long can a tax audit take?

The LOT does not impose any maximum duration or time limit on tax audits. The Tax Audit SOPs specify that a tax audit can be completed within one to six months, provided that the taxpayer cooperates with the auditor's information requests. They also specify that the tax auditor must complete the tax audit by the end of the tax audit plan year or at the latest, by the end of the first quarter of the following year, even if no reassessment can be imposed.

Prior to the issuance of the Tax Audit SOPs, in practice, limited audits and comprehensive audits have often taken more than a year to complete, with a number of audits even dragging on five years or more. It remains to be seen if the more directed process set out in the Tax Audit SOPs will have an effect on the length of tax audits.

There are many reasons for these delays. Both the GDT and the taxpayer may be responsible for delays. From the GDT's side, delays are often said to be caused by the large work volume and the need to obtain higher-level approvals. From the taxpayer's side, we often see delays in obtaining the necessary documentation and information to meet the auditor's requests. The GDT typically accepts time extensions upon request by the taxpayer, as the Tax Audit SOPs also stipulate.

When is a tax audit considered closed?

A tax audit typically concludes with the issuance of an NOTR, which may be revised after the first and second protests (see details on NOTRs, and taxpayer protests and appeals in the following chapters). The audit ends when the taxpayer agrees with the reassessed tax liabilities and pays the amount specified in the NOTR to the GDT. If no NOTR is issued (which is quite rare in practice), it can be difficult to determine if the audit has officially ended, as tax officials may only provide verbal confirmation or note the conclusion in meeting minutes. Taxpayers can request formal confirmation from the GDT, but this may take some time. The General Director of the GDT must officially close the audit upon a request from the relevant department.

Common request letters to the GDT in connection with tax audits

In the tax audit context, several requests are commonly made to the GDT, as shown in the table below.

Request	Description	When to submit?
Letter to request confirmation of tax audit finalization	This letter seeks written confirmation from the GDT that a tax audit has been finalized and no further adjustments are expected. It is helpful to ensure accurate tax filing and prevent future disputes.	No deadline, but should be submitted after the audit is completed.
Letter to request that the audit process be expedited	This letter requests that the GDT help to expedite the ongoing tax audit process for specific reasons, such as urgent business needs, financial hardship, or impending deadlines.	No deadline, but should be submitted when the audit delay becomes problematic.
Letter to request a waiver of tax penalties and interest	This letter asks the GDT to waive penalties and interest accrued for late payment or an inaccurate tax filing. It should explain the reasons for the non-compliance and demonstrate efforts to rectify the situation.	No deadline, but should be submitted soon after the penalties and interest are imposed.

Chapter 4: The tax reassessment

What are the legal requirements for a tax reassessment?

A reassessment of the tax position of a taxpayer requires the tax auditor to send the taxpayer an NOTR. Prakas 270 and the Tax Audit SOPs specify the required contents of an NOTR:

- Date of issuance and notice number
- The taxpayer's name, address, business activity, and VAT taxpayer identification number
- Tax audit period and type of tax audit
- Name of the tax auditors in charge
- The basis of the tax reassessment made and the tax liability
- Signature and stamp of the authorized person from the GDT

Prakas 270 does not explicitly require that the NOTR set out a breakdown of the taxable amounts, or the legal and factual basis of the tax reassessment. The taxpayer is entitled to this explanation according to the Tax Audit SOPs and according to Articles 14 and 15 of Prakas 270, but it is not explicitly stated that this explanation be provided in writing or in the NOTR itself. Thus, an explanation that is made separately or even verbally may suffice to meet these regulations. Nevertheless, many tax auditors include a detailed breakdown or basis of the reassessed amounts in or with the NOTR.

Do officials usually send an advance draft of the NOTR?

Generally, a draft NOTR will often be sent in advance to the taxpayer, although the GDT does not have an obligation to do so. This offers the possibility for the taxpayer to informally note their disagreement with a number of items. It also serves as a reminder to the taxpayer that if there is no reply or cooperation, the reassessment is likely to proceed rapidly. If the taxpayer disagrees with the draft reassessment, they can provide an explanation and supporting documents to the tax auditors to justify their position. If the auditors are satisfied with the correctness of such documents or clarification, they may revise the draft NOTR.

What does it mean if you never receive an NOTR?

Most tax audits result in some kind of a tax reassessment. The Tax Audit SOPs provide that an NOTR must always be provided at the conclusion of the tax audit, even if the reassessed amount is zero.

In practice, if a taxpayer never receives an NOTR for previous tax years even though these have been audited, the taxpayer should request that the tax audit be closed without reassessment or that an NOTR be issued.

What is the procedure to pay the reassessed tax?

To pay any reassessed tax, taxpayers have the following options:

- At the GDT's headquarters, or one of its provincial or commune branches
- At partner bank branches (Canadia Bank Plc, ACLEDA Bank Plc, Cambodian Public Bank Plc, Vattanac Bank, J Trust Royal Bank Plc, Cambodia Post Bank Plc, Foreign Trade Bank of Cambodia, SATHAPANA Bank Plc, Advanced Bank of Asia Ltd, and Wing Bank (Cambodia) Plc.)
- Via the GDT taxpayer app (e-payment system)

When must the reassessed tax be paid?

After issuance of an NOTR that includes the tax amount, additional taxes, interest, and fines, the taxpayer has 30 days to either pay the tax liability or lodge a protest (see details in the next chapter).

If a taxpayer does not pay the tax liability on time, the GDT will issue a reminder letter for collection. The taxpayer has 15 days after receiving the reminder letter to pay before the GDT applies the enforcement measures as stated in Articles 217, 218, 220, 221, and 222 of the LOT.

Important Note: Interest on underpaid taxes accrues from the moment that the underpaid tax should have been paid until it is actually paid, except during: (1) the 30-day period to file a protest after receiving an NOTR; and (2) the GDT's review period until protests against the reassessment have all been rejected by the GDT (see Chapter 6 for details). Delays can be costly!

Chapter 5: Protests against a tax reassessment

Overview of the tax dispute settlement system in Cambodia

Taxpayers have the right to challenge any tax reassessment issued by the GDT. The dispute resolution system in Cambodia is tiered, offering taxpayers multiple avenues to contest the GDT's decision.

The initial stage involves filing protests with the GDT itself. Upon receiving the NOTR, taxpayers have 30 days to file an administrative protest with the GDT (Article 236, LOT). This protest allows them to address any objections they may have regarding the reassessment.

Within 60 days of receiving the initial protest, the GDT must issue a second NOTR (Article 238, Paragraph 1, LOT). This second NOTR may partially or fully accept the taxpayer's arguments presented in the initial protest. If dissatisfied with the second NOTR, taxpayers have another 30 days to file a second protest against it (Article 238, Paragraph 2 LOT).

At any time during the tax dispute process, the GDT may internally transfer the case to one of its Litigation Bureaus.

If the dispute remains unsettled after the second protest, taxpayers can appeal to the Tax Arbitration Committee, established by the MEF. Information from recent years indicates that this committee handles between 100 and 200 appeals at any given time, and completes about 50 appeals per year.

Appeals against the decision of the Tax Arbitration Committee can be made to Cambodia's regular court system within 30 days. Information from recent years indicates that referral to the courts occurs in just a handful of cases. Before the court can hear the appeal, the full amount of the disputed tax debt must be deposited into the national treasury.

Protests against tax reassessments

The protest letter by a taxpayer is a formal, written objection to a tax reassessment issued by the GDT. It should include details of the reassessment, the reasons for disagreement (e.g. factual errors, misinterpretation of tax laws), and supporting evidence.

The protest must be filed within 30 days of receiving the NOTR. It will be considered by the GDT and a new NOTR will be issued to take into account the taxpayer's protest. This NOTR, often called the second NOTR, may reduce the taxable amount, keep it the same, or even increase it. The second NOTR then triggers another possible protest by the taxpayer, often referred to as the second protest. This cycle of NOTRs and protests can in some rare cases continue for three, four, or more runs, although the relevant laws only explicitly recognize the first and second NOTR.

Step	Action	Deadline
1.	The first NOTR is issued by the tax auditor.	
2.	The taxpayer files a first protest.	Within 30 days of receiving the first NOTR
3.	The tax auditor issues a second NOTR.	Within 60 days after the first protest is received
4.	The taxpayer files a second protest (according to the law, the second protest is supposed to be made to the Tax Arbitration Committee, but in practice, the GDT often entertains second protests made to the tax auditor).	Within 30 days after the second NOTR is received

How does a taxpayer file an initial protest against an NOTR?

Taxpayers have the right to file a protest if they do not agree with a tax reassessment. Often the protest is filed by the taxpayer's representative. The protest letter needs to be dated and signed by the taxpayer or its legal representative and filed with the GDT within 30 days after receipt of the NOTR. It is usually written as a normal letter but taxpayers should follow the sample provided by the GDT (see sample on the next page) and include certain prescribed information, as set out in the next answer.

What are the required contents of a protest letter?

The GDT has published a sample example of a protest letter, which is included below. According to Prakas 270, the following elements must be included in a protest letter:

- The taxpayer's (entity's) address
- The telephone number of the taxpayer or their authorized representative (person responsible for the protest), that is reachable by the GDT
- The taxpayer's VAT taxpayer identification number
- The reference number of the NOTR that is the object of the protest letter
- The reason for the protest. The taxpayer must clearly specify why they do not agree with all or part of the reassessment (and if only partial, which parts).
- The facts or acts that are the objects of the protest letter. The taxpayer must set out the events, facts, and legal provisions that support the modification requested, and the measures or decisions that are the objects of the claim.
- Since the burden of proof is on the taxpayer to prove that the GDT reassessment or other decision is incorrect, relevant evidence related to the protest, such as business records, invoices, and contracts, must be provided.

- The date, authorized signature, and stamp of the taxpayer (with a power of attorney to an authorized representative if the managing director of the entity is not the one that signs the protest letter).

Important Tip: Many protest letters lack a proper explanation and evidence. It is not a persuasive or even acceptable protest if the taxpayer simply states their disagreement with the reassessment. The letter should set out the facts, the reasons, the evidence, and the legal rules that support the taxpayer's argument.

Protest Letter of Taxpayer

Company's name:
Identification: (VAT TIN/PIN/...)
Company's address:
Tel:
Email:

Phnom Penh,

Attention to
His Excellency (Title), the General Director of the General Department of Taxation

Subject:

Attachments: - (Decision or disciplinary measure and its date that is the subject of the protest)
- (Relevant legal documents, if any)
- (Documents or supporting evidence)

According to the above subject and attachments, we would like to inform **Your Excellency (Title), the General Director of the General Department of Taxation**, according to (Decision or disciplinary measure with stated date, which the protester is not satisfied with) we have the following views:

- a. Facts
.....
- b. Basis and reasons
.....
- c. Conclusion
.....

As mentioned above, we would like to request **Your Excellency (Title), the General Director of the General Department of Taxation** to consider and solve on our protest letter.

Please accept the assurance of our highest consideration.

Company's representative
(Signature and stamp)

Mr./Ms.
Representative

When is the earliest time to file it? The latest?

Taxpayers have 30 days from receipt of an NOTR or notice of tax collection to submit an initial protest letter to the tax assessment unit with evidence to prove that the assessment is not correct. It can be filed any time during that 30-day period.

Important Tip: Many protests are filed too late (beyond 30 days). As soon as you receive the NOTR, you should mark the deadline on your calendar. It is best to start drafting your protest and collecting evidence immediately.

What does the GDT do with your protest?

The GDT will review the protest letter and the additional supporting documents. After that, it makes a decision on whether to accept or reject any or all of the contents of the protest letter. In its written reply, the GDT will set out its conclusion on the taxpayer's protest, and state if it has found any violation of the tax provisions, the basis and regulations related to the tax assessment, and finally, the amounts of the reassessed taxes after the protest (which may or may not have changed from the NOTR under protest).

When is the GDT required to reply to the protest?

Article 238 of the LOT states that the GDT will respond within 60 days of the date of the protest letter. However, in practice, it is quite possible that the reply time is extended if there are follow up questions from the tax auditor to the taxpayer. Thus, the reply time will depend on the audit case, the additional documents provided, or if the GDT requests further documents and there has been a delay in receiving them.

What happens if the taxpayer disagrees with the GDT's response to their first protest?

If the taxpayer is not satisfied with the GDT's response, they can file a second protest letter, which must be done within 30 days after receiving the response from the GDT. The contents of the second protest are similar to the initial one but should cite further legal grounds and supporting evidence. Copies and references to the original NOTR and the initial protest letter need to be included with the second protest letter.

How and when does a tax audit move to the Litigation Bureau?

The LTD and the DEA are meant to carry out the tax audits and, if possible, resolve protests from taxpayers. When a protest turns into a dispute, the Litigation Bureaus of the Department of Law, Tax Policy and International Tax Cooperation, also known as the Litigation Department, is better placed to take the matter further. In the practice over recent years, the exact moment when a case stops being an audit and becomes a dispute is somewhat on a case-by-case basis. There is no regulation explicitly stating when a case must be moved to the Litigation Bureaus. However, Prakas 1470, Chapter 3 “*Procedure on Handling Tax Disputes*” mentions the Litigation Bureau’s role in the early stages, specifically during “tax complaint registration and management.” Here, the Litigation Bureau is responsible for registering, managing, and categorizing taxpayers’ complaints after verifying their content and subject matter (Article 10). This suggests that the Litigation Bureau might be involved throughout the dispute resolution process, potentially playing a role in assessing the case’s suitability for litigation at some point. However, Prakas 1470 does not explicitly define the criteria for transitioning a case to litigation. The policy of the GDT has not been rigid or explicit over time. In many cases, after the second protest, the matter may be moved to one of the Litigation Bureaus.

What does it mean in practice when your audit case has been moved to a Litigation Bureau?

This means the tax audit dispute is not resolved and will no longer be handled by the LTD or the DEA. Instead, the tax auditors of the Litigation Bureau will re-evaluate the case and the taxpayer’s arguments, which may lead to a different outcome. This is thus an internal move within the GDT administration. It does not necessarily mean something negative for the taxpayer.

In the past, it also meant that taxpayers had to resubmit to the Litigation Bureau all documents and evidence, but the Tax Audit SOPs now provide that the tax auditors have to pass on the documentation internally.

Chapter 6: Interest and penalties

Interest for the late payment of taxes or for underpaid taxes

Cambodian tax law identifies the following periods where the taxpayer is responsible to pay interest for the late payment of underpaid taxes:

- **Before the tax reassessment:** The taxpayer is charged interest of 1.5% per month during the period between when the underpaid tax should have been paid and when the NOTR is issued by the GDT; plus
- **After the tax reassessment:**
 - If no protest is filed within 30 days: The taxpayer is charged interest of 1.5% per month for the period from when the NOTR was issued until when the tax is actually paid; or
 - If a protest is filed within 30 days: The taxpayer is charged interest of 1.5% per month for the period from when the protest or protests against the reassessment have all been rejected by the GDT until when the tax is actually paid.

To summarize, underpaid tax will trigger late payment interest (at 1.5% per month) from the moment it should have been paid until it is actually paid, except during the period that timely lodged protests by the taxpayer are being considered by the GDT. Interest will also not be charged when discrepancies are found during a desk audit and the taxpayer self-corrects and pays any tax difference when initially notified by the GDT.

Examples:

Example 1: For the tax year ended December 31, 2024: The annual tax return is due by March 31, 2025 and payment of any tax liability is due at the same time, by March 31, 2025.

Example 2: Assume a desk audit is carried out starting June 1, 2024 until August 1, 2024, resulting in a reassessment of US\$4,000. An NOTR is issued to the taxpayer on August 1, 2024, which is payable within 30 days of its date (i.e. September 1, 2024). The NOTR will include interest at 1.5% per month for the period from April 1, 2024 until August 1, 2024.

- Should the taxpayer file a protest by September 1, 2024, the 1.5%

interest stops being counted until the GDT rejects that protest, for example on October 1, 2024, and the period for a second protest runs out.

- If the taxpayer does not lodge another protest within the time period, interest at 1.5% per month is counted again from 30 days after the rejection of the protest (i.e. November 1, 2024) until actual payment.

Administrative penalties

Tax penalties are imposed for violations of the LOT and its regulations, ranging from 10% to 40% of the tax amount due, together with interest that is charged at 1.5% per month.

The table below shows the violations and corresponding administrative penalties (see also Chapter 9).

No.	Violation	Administrative penalty
1	Ordinary negligence (This is for the late payment of taxes or taxes underpaid by <10% of the amount due.)	Penalty of 10% of the unpaid taxes plus interest of 1.5% per month
2	Serious negligence (This is for the late payment of taxes or taxes underpaid by >10% of the amount due, or failure to pay tax within 15 days after receiving a tax liability collection reminder letter.)	Penalty of 25% of the unpaid taxes plus interest of 1.5% per month
3	Unilateral tax assessment (This tax assessment may be imposed when taxpayers do not cooperate in providing information and documentation. Due to the lack of required information, the GDT may levy a unilateral tax assessment based on the taxpayer's currently available information or publicly available information.)	Penalty of 40% of the unpaid taxes plus interest of 1.5% per month
4	Late payment of transport tax or transfer tax	Penalty of 100% of the unpaid taxes

No.	Violation	Administrative penalty
5	<p>Obstructing the implementation of the tax provisions</p> <ol style="list-style-type: none"> Failure to register with the GDT Failure to notify the GDT of any change in registration Failure to file a tax return Failure to use the recording system determined by the GDT Failure to issue invoices Failure to provide information or submit reports requested by the GDT Failure to allow the GDT access to accounting records and other documents Failure to maintain proper accounting records and other documents Attempts to obstruct the assessment or the collection of taxes* Making or providing fraudulent records, documents, reports, or other information* Concealing or deliberately destroying books of accounts, records, documents, reports, or other information* Issuing fraudulent invoices* Failure to allow the GDT to enter the business to determine and collect taxes* 	<p>The penalty for obstructing the implementation of the tax provisions depends on the type of obstruction that occurred. The penalties that could be levied are as follows:</p> <ul style="list-style-type: none"> • KHR5 million; or • KHR10 million; or • Criminal penalties as stated in Article 243 of the LOT (see details in the following table).

**Items 5(i) to 5(m) are subject to criminal penalties.*

Criminal penalties

No.	Violation	Criminal penalty
1	Tax evasion	Imprisonment for 1 to 5 years <u>and</u> a fine of from KHR100 million to KHR200 million
2	Obstructing the implementation of the tax provisions (items 5(i) to 5(m) under the administrative penalty section)	Imprisonment for 1 month to 1 year <u>and</u> a fine of from KHR50 million to KHR100 million
3	Revealing confidential tax information	Imprisonment for 1 month to 1 year <u>and</u> a fine of from KHR 50 million to KHR100 million
4	Acting as a professional tax agent without a license	Imprisonment for 1 month to 1 year <u>and</u> a fine of from KHR10 million to KHR20 million
5	Failure to pay the collected tax	Imprisonment for 1 to 3 years <u>and</u> a fine of from KHR50 million to KHR100 million
6	Tax collection without permission	Imprisonment from 1 to 3 years <u>and</u> a fine of from KHR50 million to KHR100 million

Note: A legal person who commits any of the offenses listed in the table above will be subject to a fine as stated above and this person may be declared to be criminally liable as stated in Article 42 (Criminal Responsibility of Legal Entities) of the Criminal Code for violations of the tax provisions under the LOT.

Who has the authority to waive penalty and interest?

The GDT, with the MEF's consent, has the authority to waive penalty and interest in the following cases (as per Article 195(3) of the LOT):

- Where the taxpayer has made a genuine attempt to comply with the tax law and the penalty and interest is disproportionate to the offense.
- Where the taxpayer has paid all outstanding taxes, penalties, and interest.
- Where the penalty and interest are the result of a clerical error or other administrative mistake.
- Where the taxpayer is in financial hardship and the penalty and interest would cause undue hardship.

What is the process to request such a waiver?

In practice, taxpayers can request a waiver of tax penalty and interest by submitting a written request to the MEF explaining the reasons for the request and providing supporting documentation. The MEF will then forward the request to the GDT for review and feedback. Subsequently, the MEF will review the submitted waiver letter and make a decision at its sole discretion on whether or not to grant the waiver.

If the taxpayer's petition is granted, the GDT will issue a written decision waiving the penalty and interest. The taxpayer will then be required to pay any outstanding taxes, but the penalty and interest will be waived.

The process to request the waiver is as follows:

- Submission of the request letter to the MEF.
- Provision of supporting documents as requested by the MEF/GDT.
- Follow-up on the status with the MEF/GDT.
- Meet with the MEF/GDT upon request.
- Obtain the decision.

Chapter 7: Appeal to the Tax Arbitration Committee and the courts

After the protest phase: appeal to the Tax Arbitration Committee of the MEF

Once taxpayers have exhausted their options for lodging protests, if they are still dissatisfied with the result, they can appeal to the Tax Arbitration Committee.

This committee, formed as per Article 239 of the LOT under a Sub-Decree of the MEF, is responsible for reviewing and resolving the protests of taxpayers who are dissatisfied with the decision or final measures of the GDT related to their tax disputes. As mentioned earlier, information from recent years indicates that this committee handles between 100 and 200 appeals at any given time.

It is currently composed exclusively of government representatives, with no representation from other sectors, and is chaired by the Minister of the MEF. The vice chairperson and members of the committee are appointed by the chairperson of the committee.

The committee also has a secretary, who helps with general administrative tasks (such as registration, coordination with appropriate officials to gather justifications and supporting documentation, and resolution proposals). Meetings are held at the invitation of the chairperson (or vice chairperson), along with pertinent representatives from ministries, institutions, tax auditors, the private sector, and, if needed, the General Director of the GDT or General Department of Customs and Excise.

Court appeals of the Tax Arbitration Committee's decisions

Taxpayers can appeal a decision of the Tax Arbitration Committee to Cambodia's regular court system no later than 30 days after receiving notification of the decision.

Information from recent years indicates that this occurs in just a handful of cases. Before the court can hear an appeal, the full amount of the disputed tax debt must be deposited into the national treasury.

Which court has jurisdiction?

The LOT merely specifies that the matter can be appealed to the “competent court” without further detail, except to state that in order for a court to receive the appeal to the court, the taxpayer must first deposit the amount of underpaid tax in dispute with the national treasury.

At present, Cambodia has no specialized tax court. There are three levels of regular courts in Cambodia: the Court of First Instance (in each province), the Appeals Court (per selected region), and the Supreme Court. The Courts of First Instance and the Appeals Courts have specialized chambers, but as far as we are aware no such specialized chamber exists for administrative law, public law, or tax cases. Generally, the Court of First Instance would be the court to hear the taxpayer’s initial appeal.

Chapter 8: Enforcement of unpaid tax debts

Under Cambodian law, the GDT has several powers to seize monies and assets to secure the payment of unpaid tax debts. In addition, the GDT has the power to cause the sale of assets to make actual collections. Furthermore, particularly in recent years, the GDT has become more assertive in taking various other measures to convince taxpayers to pay their tax debts without an actual foreclosure on their assets.

Seizures and prevention measures

The table below provides the seizures and prevention measures that the GDT can take to recover the tax, interest, and penalties owed by a taxpayer.

Measure	Description	Impact on taxpayer	Legal basis
Blacklisting (public notice)	The GDT may publish the company's name as well as its shareholders and directors on its website and social media as an "invitation" to pay existing tax debts. Use of social media for this purpose by the GDT has been discontinued recently.	Individuals on the black list are prevented from setting up or becoming a director of another business in Cambodia until all tax liabilities are settled.	Administrative practice
Blocking any corporate registrations related to taxpayers with unpaid tax debts	The GDT's approval is needed for a number of corporate registrations such as, among other things, the incorporation of a new legal entity, liquidation, a change of director, and the transfer of share ownership.	This is a very effective measure but it paralyzes the corporate entity involved.	Administrative practice

Measure	Description	Impact on taxpayer	Legal basis
Stopping of imports and exports	The GDT and the customs administration halt import and export operations.	The delinquent taxpayer's imported goods and exports are detained and will only be released with the authorities' approval.	Article 221, LOT
Canceling of licenses	The GDT requests the competent authorities to revoke a delinquent taxpayer's permits and licenses.	The taxpayer is unable to operate certain businesses or activities.	Article 222, LOT
Freezing of bank accounts	The GDT sends written notification to the bank to freeze a delinquent taxpayer's bank accounts, which takes effect immediately.	The taxpayer is unable to access funds and so can only carry out limited financial transactions. In addition, the taxpayer is barred from opening another bank account unless approved by the GDT.	Article 220, LOT
Seizure of property	The GDT seizes and places a lien on a taxpayer's property after the taxpayer fails to pay the tax due even after receiving a reminder letter.	This results in the loss of property, and potential financial losses from seizure and maintenance costs.	Article 217, LOT

Selling assets to pay the tax debt

Under Articles 218 and 219 of the LOT, the GDT can file a lawsuit to confiscate the taxpayer's property to ensure payment of the tax liability. While the case is under review, if the GDT obtains permission by warrant of the court, it can provisionally dispose of the taxpayer's property in the form of a sale. The proceeds from the provisional disposition will be retained in a provisional GDT account.

If a final sale is done, any proceeds that exceed the taxpayer's tax liability will be returned to the taxpayer, except as otherwise determined by the court.

Liability of managers, directors, and owners to pay the tax

Under Article 214 of the LOT, managers, directors, and/or owners may be held personally liable for the tax amount due if they knowingly did not declare or underdeclared tax or did not allow the tax to be paid.

Tax liability in the case of a transfer of shares or business

Under Article 215 of the LOT, upon transfer, the new owner is responsible for all of the acquired company's tax liability. In the case of mergers, the surviving company or new company arising from the merger is liable for all of the merged entities' tax debts.

Chapter 9: Self-correcting tax returns

How does it work?

Early in 2024, the GDT issued Prakas 071 MEF P.GDT dated January 30, 2024 (“**Prakas 071**”) to incentivize taxpayers to make revisions to their earlier tax returns. The unstated but nevertheless clear objective of the GDT is to encourage taxpayers who are or become aware of past under- or misdeclarations to voluntarily make the necessary corrections to their tax filings. To do so, the GDT will, in some circumstances, waive the otherwise due interest for late payment and the additional taxes (penalties for non-payment).

Prakas 071 offers taxpayers a full exemption on interest for late payment (which is set at 1.5% per month) and a full exemption on the penalties (at 10%, 25%, or 40% of the underpaid tax) that would otherwise apply to declaring and paying a tax late (although these exemptions may not always be available for tax returns already being audited (see the discussion under “Correction of tax returns pending an audit” below).

This is not the first time the GDT has attempted to coax Cambodian taxpayers into correcting their tax compliance of their own volition. In 2022, a somewhat similar regulation (Prakas 217 MEF.P dated March 14, 2022) was issued.

Furthermore, the Tax Audit SOPs provide that taxpayers have 30 days to self-correct their tax return without interest (once per year) after receiving a notice in the context of a desk audit.

Which taxpayers are allowed to self-correct their tax returns?

All self-assessment taxpayers can invoke Prakas 071. All companies are either medium or large self-assessment taxpayers, depending on key financial indicators, and are thus allowed to carry out the correction of tax returns.

Non-governmental organizations, non-profits, and representative offices are medium taxpayers in the self-assessment system. Their tax liabilities are typically limited to withholding taxes and salary taxes. They too can carry out corrections under Prakas 071.

Small taxpayers are not included in the regular tax audit program. For that reason, it is difficult to imagine that small taxpayers would be eager to correct their tax declarations.

Withholding agents may also invoke Prakas 071.¹

What kind of corrections are taxpayers allowed to make?

Prakas 071 speaks of “corrections of tax returns due to misunderstanding and uncertainty.”² At first glance, this choice of words suggests that not all corrections are allowed to be implemented under this system. For example, what happens to correcting an intentional omission or act of evasion?

The mechanics of the corrections themselves indicate that any type of correction, including intentional omissions, may fall within the scope of Prakas 071. As will be seen below, for the most important taxes the corrections are done in the online filing system of the GDT, which allows for adjustment of earlier uploaded tax declarations. This online system does not have any appreciation for the deeper motive behind the error in the corrected tax return, and it seems to us that regardless of the earlier motive, all corrections are as a principle accepted by the system automatically, if the correction results in more taxes.

By which date must the corrections be carried out?

The MEF has extended the deadline for taxpayers to benefit from incentives under Prakas 071, initially requiring taxpayer self-corrections by June 2024. Through Prakas 625 MEF. PrK, issued on October 10, 2024, the MEF has further prolonged the grace period to June 30, 2025 for taxpayers to self-correct transactions occurring prior to August 2024.

For which taxes are corrections allowed?

Prakas 071 does not specify which taxes it covers. The most important and regular ones can be filed and corrected online, such as VAT, TOI, Tax on Salary and Fringe Benefit Tax (“**FBT**”), and WHT.

However, Prakas 071 does not say anything about limiting the right to self-correction to these most important taxes that can be filed online. We conclude from this that all taxes may be corrected under Prakas 071.

1 Article 3 of Prakas 071.

2 Article 2 of Prakas 071.

For those taxes that are not filed online, the correction would have to be implemented by refiling corrected hard-copy tax returns. The same can be said for correcting tax returns that preceded the introduction of the online filing facility.

Can be amended online	Should presumably be amended by submitting hard copy
<ul style="list-style-type: none"> • VAT • Tax on Salary • FBT • WHT • PTOI • Specific Tax • Public Lighting Tax • Accommodation Tax • TOI • Minimum Tax 	<ul style="list-style-type: none"> • Advertisement Tax • Tax on Immovable Property Rental • Transfer Tax • Tax on Immovable Property • Unused Land Tax • Capital Gains Tax • Tax on Transportation Means • Advance Tax on Dividend Distribution

For which tax years are corrections allowed?

Prakas 071 only states that tax returns related to transactions occurring before January 1, 2024, thus up to and including December 31, 2023, can be corrected. This window has been expanded under Prakas 625, which extends the deadline for voluntary amendments to June 30, 2025 and applies retroactively to transactions occurring before August 1, 2024 (through July 31, 2024).

While Prakas 071 imposes no statutory limitations on how far back taxpayers may rectify their tax returns, in practice, the GDT may audit financial records up to three years prior, which is extendable to five years if fraud or evasion is suspected. Consequently, taxpayers are advised to prioritize self-corrections for the most recent five financial years (e.g. 2020-2024) to mitigate audit risks.³

³ The correction of years already under audit is a separate issue, see the next section.

Correction of tax returns pending an audit

The voluntary correction of tax returns that are already under a tax audit present several administrative and practical questions. On the one hand, it is beneficial for the GDT that taxpayers volunteer to pay underpaid taxes that have already been reassessed by officials in the course of a tax audit instead of appealing them and delaying payment. Granting taxpayers benefits such as waivers of interest and penalties may be justifiable from that perspective. Enforcement and seizures can be lengthy and costly for all involved.

On the other hand, granting blanket exemptions of interest and penalties for reassessed taxes unjustly prejudices those taxpayers who have declared and paid their taxes as they were due. Why would taxpayers pay on time if there is no cost for failing to do so?

This tension between seeking to incentivize wrongly declaring taxpayers without disincentivizing timely compliance is palpable in Prakas 071.

Prakas 071 allows the correction of tax returns for periods that are already under audit, but it distinguishes the incentives—somewhat vaguely—between two situations:

- The issue that is to be corrected has not yet been found in the audit: In this case the 1.5% interest for late payment and the additional penalty (of 10%, 25%, or 40%) are all exempted, identical to where there is no audit at all.
- The issue that is to be corrected has already been found in the audit: In this case the 1.5% interest for late payment is NOT exempted. With respect to the additional penalty, a penalty of 10% is payable and this can be offset with the final penalty imposed at the closing of the audit, which could be at 10%, 25%, or 40%. In this situation, assuming the GDT would seek to impose a 25% or 40% penalty in any event for the underpaid tax issue, it is difficult to see any incentive for the taxpayer to self-correct.

The notion “not yet been found in the audit” is somewhat in need of a better definition. Although the tax authorities are required to explain their reassessments to the taxpayer this is, in practice, not necessarily the case in the NOTR itself. It may thus be difficult to determine what issue has been “found”, although the common practice of drafting meeting minutes may serve as evidence in this regard.

Chapter 10: Practical tips for

Name	Tax audit issue
Deemed salary of directors or employees	<p>Remuneration of company directors or employees is clearly taxable as salary under the Tax on Salary.</p> <p>This tax audit issue usually centers around directors or employees working for group entities who do not receive any formal remuneration from the company.</p> <p>The tax auditor might take the view that if a director or an individual that is employed by another entity actually performed work for the company, there should be taxable remuneration.</p> <p>Sometimes the tax auditor may suspect that the person in question is receiving remuneration overseas (as part of their employment for the shareholder) but not declaring it as Cambodian-sourced income.</p>
Loans to a related party without or at a low interest rate	<p>The tax auditor may impute interest income on interest-free loans to related parties based on the published interest rate.</p> <p>This means that if a company provides a loan to a related party without interest, the tax auditor may treat it as if the company received interest income on the loan, even though it didn't actually receive any interest. The amount of imputed interest income will be based on the market or published interest rate for a similar loan.</p>
Interest-free loans from a related party, including shareholders	<p>A company receives a loan from a shareholder or another related party. The tax auditor might claim that an unrelated party would have paid interest on the loan, which would have triggered WHT.</p>

common issues that are reassessed in a tax audit

Best course of action	According to the law
<p>The best course of action is often to provide evidence that the director position is unpaid according to corporate documentation. The taxpayer could also provide proof that the director never or very rarely visited Cambodia, and that their foreign employment contract, if any, does not require them to be a director.</p> <p>For employees of other entities, it is recommended to produce the employment contract between the employee and that entity as evidence.</p>	<p>Article 42(5), LOT states that a “director of an enterprise” is treated as an employee, and per Article 42(6), wages paid for work in Cambodia is Cambodian-sourced income.</p> <p>As a principle, one cannot be taxed on income one does not earn. On the other hand, salary paid abroad that is partially for work performed in Cambodia is taxable in Cambodia.</p>
<p>For a loan provided to a related party with interest that is challenged as too low by the tax auditor, the best course of action is to demonstrate that the low interest rate is justified under the circumstances, such as the collateral, the low risk, the commercial terms, or the business strategy.</p> <p>For a loan provided to a related party without interest, it is best to focus on meeting the conditions of Instruction 10979 (next column).</p>	<p>As a principle, the company will have to charge an arm’s length interest rate for loans provided to related parties.</p> <p>However, Instruction 10979 allows taxpayers to charge 0% or low interest rates on related party loans, without complying with the arm’s length principle, if they have the following supporting documentation:</p> <ul style="list-style-type: none"> • Loan agreement that specifies the term of the loan and repayment period; • Business plan or current and forecasted financial statements along with the purpose of the borrowing and explanations; and • Board of directors’ resolution (for an entity that is not a single member private limited company).
<p>The best course of action is probably to focus on meeting the requirements of Instruction 10979 (see above).</p>	<p>WHT is not due if interest was not paid or accrued. Under Prakas 986, however, the tax auditor may adjust and reassess the division of income between related entities.</p>

Name	Tax audit issue
Loan or debt without sufficient evidence	A company has a debt or a loan on the books, but the taxpayer cannot provide much evidence related to the debt or loan. The tax auditor might seek to disallow the debt or loan for various reasons, such as if the debt is not genuine or if it lacks proper documentation or economic substance.
Payments made to non-resident group companies for intragroup or shared services	Intragroup or shared services can include various management and administrative functions, such as accounting, legal, computer services, customer-related services, and call centers. Payment for “management and technical services” triggers 14% WHT if accrued or paid to a non-resident (and 15% if to a non-VAT-registered resident).

Best course of action	According to the law
<p>The best course of action is to prepare in advance evidence of the debt's genuineness, including supporting documents such as an agreement and proof of payment, but also detailed plans setting out what the loan is for and how it will be paid back. Especially for debts with related parties, the taxpayer should have the following documents:</p> <ul style="list-style-type: none"> • Loan agreement that specifies the terms and repayment obligations. • Proof of loan repayment without additional interest (including bank statements). • Evidence of the taxpayer's lending practices, including other loans made to both related and unrelated parties. <p>Debt with a duration of less than 1 year does not fall within this scope.</p>	<p>The taxpayer has the obligation to provide reasonable evidence of the debt or the loan.</p>
<p>For the expense deduction on shared services, the best course of action is to provide evidence that the costs were indeed incurred, that the performance of the services was real, and that the services were used in Cambodia.</p> <p>WHT is triggered by the payment or the accrual of the service fee.</p>	<p>Article 7(1)(d) of Prakas 098 MEF.PrK. on Tax on Income dated January 29, 2020 (the "TOI Prakas") provides broad definitions of "management or technical services": A management service is any service <i>"designed to perform the management functions of a business, including recruitment, training, management, sales, etc."</i> A technical service is any service that <i>"requires technical skills or knowledge to develop or create inputs in business, such as scientific, physical, chemical, medical, dental, pharmaceutical, law, hydrology, veterinary, arts, education, engineering, architecture, research, accounting, economic, well-being, atomic, including consulting services."</i> A consulting service is <i>"a professional or advisory service related to a technical service."</i></p>

Name	Tax audit issue
<p>Payments or mutations regarded as the distribution of profit or dividends</p>	<p>Some transactions might be challenged by the tax auditor and treated as if they were dividend distributions:</p> <ol style="list-style-type: none"> 1. Interest-free loans to related parties may be viewed as dividends to shareholders. 2. A decrease in retained earnings may be challenged and deemed to be a dividend distribution. 3. A payment made by a branch to its overseas head office recorded in the general ledger could also be challenged as a deemed dividend distribution. <p>The GDT might impose 20% TOI on the taxpayer and an additional 14% WHT if the payment is to a non-resident.</p>
<p>Discrepancies between money transfers on bank statements and tax returns</p>	<p>The tax auditor will routinely seek to reconcile the money flows in the company's bank statements with its tax returns. GDT may suspect a taxpayer of underreporting income or failing to withhold tax on payments if the taxpayer's bank balance does not match their tax return, or if their declared income on the tax return is lower than the cash inflows into their bank account.</p>

Best course of action	According to the law
<ol style="list-style-type: none"> 1. To prove that a loan is not a dividend payout, taxpayers should provide evidence that the loan was made in accordance with Instruction 10979 and was documented properly. 2. Some capital account transactions can be defended with proper Ministry of Commerce documentation of the transaction. 3. Unsubstantiated payments by a branch to the head office should be documented in detail as to their nature and purpose. 	<ol style="list-style-type: none"> 1. Article 5(8), LOT defines a dividend as a <i>"distribution of money or property that a legal person distributes to the shareholders with respect to the shareholder's equity interest in such legal person."</i> 2. Article 6, Prakas 372 MEF. Prk provides explicitly that a conversion of retained earnings into capital is not taxed as a dividend if the taxpayer has a board resolution and obtained approval from the Ministry of Commerce. 3. Article 26, LOT stipulates that resident taxpayers are required to withhold 14% WHT on payments of Cambodian-sourced income to non-resident taxpayers.
<ul style="list-style-type: none"> • The LOT does not state that the inflow of money from bank transactions should be used to compute taxable income or VAT taxable supplies. The mere presence of money in a bank account does not establish that the money is taxable income. However, to defend against such reassessment: • Review bank statements and tax returns carefully to identify any discrepancies. If the discrepancies are accounting errors, correct them and file an amended tax return. • Be prepared to provide documentation to prove that the bank transactions under dispute are not subject to tax. For example, if the GDT suspects that an interbank transfer is income, provide documentation to show that the company was simply moving funds from its savings account to its operating account to cover routine payments. 	<p>In and of itself, a money transfer does not have tax implications unless it represents taxable income or a VAT supply. The moment of payment, along with accrual, of certain income also triggers withholding tax.</p>

Name	Tax audit issue
Reassessment of VAT on intragroup profit-sharing	The GDT may mischaracterize the taxpayer's share of overseas profits as arising from services performed in Cambodia, subjecting it to VAT. This case hinges on the misinterpretation of income attribution in profit-sharing agreements between Cambodian taxpayers and their overseas related parties.
TOI and VAT on tips or service charges deemed as the employer's taxable income	Some businesses, such as restaurants and hotels, include a service charge in their customers' bills and distribute the amounts collected to employees. The GDT may interpret these as the employer's taxable income, reassessing TOI and VAT on the total amount.
Use of a car by an employee	The tax auditor may challenge the provision of a company vehicle to an employee for business use, arguing that it is a taxable benefit since the employee could use the vehicle for personal matters at will. As a result, the employer may be required to withhold 20% FBT on the fair market value of the staff benefit deemed provided.

Best course of action	According to the law
<p>The issue lies in proving the location of service performance and the subsequent attribution of income. Be proactive. Don't wait for the GDT to contact the company. If you are aware that the auditors are imposing VAT on overseas services, contact them immediately to start the discussion.</p> <p>Be prepared to provide evidence that the services were supplied overseas. This may include contracts, invoices, and other business records.</p>	<p>Per Article 59, LOT, VAT is applicable to the supply of goods or services in Cambodia and is not applied to revenue derived from services performed outside of Cambodia.</p>
<ul style="list-style-type: none"> • Maintain accurate records of all tips collected and distributed to employees. Pay the tips to employees directly and promptly. • Have employees sign a statement acknowledging that the tips they receive are their own income and not the employer's. 	<p>Per Article 134, Labor Law, tips and service charges are the rightful income of the employee, and the employer has no right to claim or dispose of such income. The employer must collect and distribute tips in full to the employees who performed the service.</p>
<p>If an employee is only given access to a company vehicle for business purposes and is required to return the vehicle to the company's premises after work and during days off, then the provision of the vehicle is not considered a taxable benefit. To prove to the GDT that a company vehicle is only used for business purposes, employers should:</p> <ul style="list-style-type: none"> • Implement a written policy prohibiting personal use of company vehicles and requiring them to be parked on the company's premises after work and on days off. • Require employees to keep a mileage log for their company vehicle, noting the date, start and end mileage, destination, and purpose of each trip. • Require employees to submit receipts for all business-related expenses, such as fuel, tolls, and parking. 	<p>Article 16, Prakas 543 MEF.Prk. on Tax on Salary dated September 8, 2021 ("Prakas 543") distinguishes between providing an employee with access to a company vehicle for business purposes and providing an employee with a company vehicle for personal use.</p>

Name	Tax audit issue
Expenses paid to related parties	The tax auditor may allow expenses paid to related parties to be deducted from taxable income, but may challenge the amount paid if too high. As a result, it is common for the tax auditor to disallow a portion of such expenses as non-deductible.
VAT reverse charge on digital goods or services or e-commerce	The GDT has increased scrutiny of this issue by verifying e-filing and WHT returns. Many digital goods and online services trigger reverse charge VAT when supplied from overseas. This applies not only to software and online services, but in the view of some tax auditors also to certain traditional cross-border services that were delivered remotely (without physical presence) with an online aspect.
Reassessed WHT on no or low office rent	<p>A taxpayer may have a free or very low-cost office at its disposal from a related party or a business partner. The tax auditor sometimes reassesses the office rental fee during a tax audit, increasing it to what it considers reasonable in order to collect WHT.</p> <p>The process typically involves the GDT requesting to see the rental agreement or lease, invoices, proof of payment, and evidence of how the rental fee was calculated.</p>

Best course of action	According to the law
<p>All taxpayers with related party transactions must prepare TP documentation and have it available for the GDT during a tax audit.</p> <p>Ensure expenses paid to related parties are genuine, reasonable and necessary, get multiple quotes from unrelated parties when setting prices, and keep good records of all related party expenses.</p>	<p>Article 8, Prakas 986 states that expenses paid to related parties will not be adjusted if the price obtained from the controlled transaction was tested with a proper TP method that is within the arms' length range.</p>
<p>Carefully review all WHT declarations to determine whether there are any items that would be considered digital goods or services. If so, the VAT reverse charges should be correctly declared not only to avoid penalties and interest, but also to allow for claiming the declared VAT as an input credit.</p>	<p>Prakas 542 MEF.PK provides for a 10% VAT reverse charge on commercial transactions via an electronic system, the supply of digital goods and services, and any other e-commerce activity. Specifically, "digital goods" refers to intangibles that are ordered, supplied, and delivered entirely via an electronic system; and "digital services" refers to services that are transacted via an electronic system.</p>
<p>Taxpayers can:</p> <ul style="list-style-type: none"> • Verify the assessment: Review the assessment and ensure that it accurately reflects the office rental fee; if there is an error or discrepancy, gather all relevant documentation to dispute it. • Prepare supporting evidence in advance: collect all necessary documents to prove the actual office rental fee. This may include rental agreements, invoices, payment receipts, or any other relevant records. Taxpayers with related party transactions should always prepare a proper TP report that focuses on the Cambodian situation, including when renting from or to group entities. 	<p>Article 25(1)(B), LOT states that resident taxpayers who make payments in cash or in kind to another resident taxpayer deduct and pay WHT at 10% on income from renting movable and immovable property.</p>

Name	Tax audit issue
Share transfers	<p>Even before the introduction of the capital gains tax itself, tax auditors have occasionally reassessed Cambodian companies 20% TOI on gains made on the direct transfer of shares in a Cambodian company by a non-resident shareholder.</p> <p>Less controversial is when a sale of shares reflecting a transfer of retained earnings is taxed 14% WHT as a dividend distribution.</p>
Reimbursement of costs taxed as income	<p>Tax auditors might claim that remittances and reimbursements should be treated as income if:</p> <ul style="list-style-type: none"> • They are not properly documented or substantiated. • They are made to or received from a taxpayer who is suspected of not providing any goods or services to the payer or payee. • They are excessive or unreasonable in amount. <p>Specific examples:</p> <ul style="list-style-type: none"> • Employee travel reimbursements that exceed the actual cost of the travel. In this case, the employer may be held liable for WHT and FBT. • Remittances received from an overseas related party for cost reimbursement. In this case, the taxpayer may be suspected of providing a taxable supply, and the GDT may assess TOI and VAT, even though the remittance is purely a cost reimbursement with no markups.
Discrepancies between other tax returns and declared annual income	<p>Tax auditors frequently cross-checks annual sales revenue and annual salary expenses or other items between the annual TOI return and the monthly tax returns. Income that is reported in the monthly tax returns but not in the annual TOI return will nearly always end up being added to the tax reassessment. This situation may often trigger a Desk Audit.</p>

Best course of action	According to the law
<p>If there are no retained earnings, the taxpayer can dispute the reassessment of TOI based on a range of legal arguments, including that such an assessment would preempt the new capital gains tax.</p>	<ul style="list-style-type: none"> • Prakas 346 on Capital Gains Tax (delayed implementation until 2025); • Article 7, LOT on taxable income in general. • Prakas 372 on the sale of shares in a company that has retained earnings.
<ul style="list-style-type: none"> • Keep all documentation related to remittances and reimbursements, including invoices, contracts, expense reports, and receipts. • Ensure that remittances and reimbursements are made for legitimate business purposes. • Be mindful of remittances and reimbursements made to or received from related parties. Prakas 986 requires that these transactions be carried out at arm's length. 	<p>Under Article 7, LOT, for a legal person, taxable income is the result of adjustments on accounting results in the tax year. Article 21, TOI Prakas defines the income from business activities as the income from the supply of goods or services.</p>
<p>The best course of action is to avoid any discrepancies when preparing the TOI return by doing a reconciliation between monthly and annual amounts (e.g. of sales and salaries, etc.). Equally important is to maintain justification and clear supporting documentation as evidence for future tax audits. Should discrepancies be unavoidable, audited financial statements should explain and justify the difference. Possibly, the taxpayer may need to file amended tax returns.</p>	<p>Article 119, LOT states that “when the taxpayer fails to maintain sufficient documents or fails to provide sufficient information, the tax administration has the right to assess tax on the taxpayer on the basis of any precise information available to the tax administration. The burden of proof that the tax determined by the tax administration is incorrect is on the taxpayer.”</p>

Name	Tax audit issue
VAT on the disposal of assets	<p>During the course of a tax audit, tax auditors will often request the company's fixed asset listing to review the movement of fixed assets, particularly whether any were sold during the year. If a company fails to provide proper invoices or did not follow the rules on VAT under Instruction 11581 dated May 5, 2020 on VAT on the Disposal of Business Assets ("Instruction 11581") when selling fixed assets, the auditors will deem and recalculate income and apply VAT to the amount.</p> <p>The most common issues of dispute are whether the disposal of a fixed asset is a non-taxable or taxable supply; and if taxable, whether the price was set at the fair market value and VAT properly declared.</p>
Disallowance of depreciation expense on assets not declared in the financial statements	<p>During the course of a tax audit, tax auditors may compare the fixed asset listing to the fixed assets declared in the financial statement.</p> <p>This is to verify that fixed assets were correctly depreciated without inflating the depreciation expense.</p> <p>Issues arise if the tax auditors find that some fixed assets are not included in the financial statements, but they were depreciated and the depreciation expense was used to offset taxable income.</p>

Best course of action	According to the law
<p>It is important to understand the rules under Instruction 11581 about disposing of a fixed asset and whether it is a taxable or non-taxable supply, and whether subject to VAT and TOI on any gains on the sale.</p> <p>The instruction specifies the following three points regarding VAT on business asset disposals:</p> <ol style="list-style-type: none"> 1. Where input VAT on a business asset was allowed as a tax credit, the subsequent disposal of that asset is a taxable supply at the fair market value. 2. Disposal of a business asset is a non-taxable supply if the asset: <ul style="list-style-type: none"> • Has associated input VAT that was not allowed as a tax credit and instead was added to the cost of the asset; • Is a non-taxable supply; • Is subject to state-charged VAT; • Is subject to 0% VAT; or • Has been entirely depreciated (i.e. accumulated depreciation equals the cost of the asset). 3. Whether or not the disposal is subject to VAT, capital gains on the sale are regarded as other income subject to TOI. 	<p>Instruction 11581, which lays out the rules for how to dispose of fixed assets and how and when VAT and other taxes apply.</p>
<ul style="list-style-type: none"> • Ensure that all fixed assets are included in the financial statements • Do not depreciate any asset that does not belong to the company. • Maintain all supporting documents related to fixed asset purchases, such as purchase orders, invoices, and customs declarations, as evidence of the assets included in the financial statements. 	<p>Article 34, paragraph 3.A, TOI Prakas states that “<i>Depreciation must be made only on a fixed asset recorded in the balance sheet of the enterprise.</i>” Thus, any asset not declared in the financial statements cannot be depreciated.</p>

Name	Tax audit issue
<p>Unearned income</p>	<p>Unearned or deferred income is cash received before goods are delivered or services are rendered; thus, it is not yet recognized as income during the year per Cambodian Accounting Standards.</p> <p>However, under the tax regulations, unearned or deferred income that is part of a sale of goods or provision of services is taxable during the year that the cash was received. In the following year, such unearned or deferred income becomes “income recorded but not taxable” for tax purposes.</p> <p>Given this, during a tax audit, if the unearned or deferred income is not properly recognized, the GDT will add back the unearned income into the TOI calculation basis.</p>
<p>Expense cut off – TOI assessed because expense deducted in the wrong financial year</p>	<p>A tax audit issue arises if a company has incorrectly treated expenses as deductible in a certain tax year when they should have been categorized as a liability or deferred expense. This could lead to an overstatement of expenses, resulting in lower taxable income and reduced tax liability.</p> <p>During a tax audit, the auditors will review the company’s expense records to ensure that expenses were properly categorized and meet the criteria for deduction.</p> <p>If they find that expenses have been incorrectly treated or the cut off has been manipulated to reduce the tax liability, the GDT will add the expense back in the TOI calculation, and assess TOI as well as penalties and interest.</p>
<p>Stock and inventory variations resulting in deemed sales and assessment of TOI and VAT</p>	<p>If tax auditors find significant discrepancies between the actual and recorded amounts of inventory, or a lack of proper documentation, they may assume that the missing inventory has been sold without being declared, thus subjecting the taxpayer to 20% TOI and 10% VAT on the assumed sales.</p>

Best course of action	According to the law
<p>Ensure unearned or deferred income should be handled properly and adjusted in the TOI computation as required.</p>	<p>Chapter 4, Article 19(2), TOI Prakas states that <i>“For the supply of goods or services, an enterprise must record income at the time of issue of the invoice if that invoice is issued before the time of delivery goods, receipt of money, or the time of delivery of goods, services, or payment.”</i></p>
<p>It is essential for companies to maintain accurate and detailed records of their expenses, and to ensure that they are in compliance with the tax laws to avoid potential tax audit issues related to expense cut off. In particular, they should review expenses or purchase transactions that occur around the cut-off date to ensure the transaction is recorded in the proper period based on the invoice date.</p>	<p>Article 24(2)(d), TOI Prakas states that <i>“a prepaid expense shall only be deducted from the income of the taxable year when the expense is actually incurred.”</i></p>
<ul style="list-style-type: none"> • Maintain accurate and up-to-date inventory records: Regular physical stock takes and proper documentation of purchases, sales, and inventory movement are crucial to avoid discrepancies. • Implement strong inventory control procedures: Establish clear internal controls to track stock movement, minimize shrinkage, and prevent manipulation. • Use consistent valuation methods: Apply the same valuation method (e.g. FIFO, LIFO) for both purchases and sales to ensure accurate profit calculations. 	<p>Article 7(2), LOT states that taxable income for legal entities is defined by adjustments to their accounting results within the tax year.</p> <p>Article 59, LOT defines a taxable supply for VAT purposes as the supply of goods or services by a taxable person in Cambodia. A mere discrepancy in inventory does not automatically constitute a taxable supply without evidence of actual sale or transfer of goods.</p>

Name	Tax audit issue
Staff benefits	The GDT will often verify if the company has any expenses which could be seen as staff benefits such as car usage, apartments, school fees, flights and travel and food allowances.
Advertisement signboards	Tax auditors may seek information on signboards, panels or posters with the name, location or other commercial information related to the taxpayer's businesses.

Best course of action	According to the law
<p>Companies need to provide the same benefit equally to every employee to avoid FBT.</p> <p>Staff benefits or fringe benefits (either in cash or kind) provided directly or indirectly by an employer to an employee is subject 20% FBT on the benefit's market value except where the same benefit is provided to all staff equally regardless of position.</p>	<p>Per Prakas 543, fringe benefits include:</p> <ul style="list-style-type: none"> • Private use of motor vehicles • Meals • Accommodation (including utilities and household personnel) • Educational assistance that is not for training directly related to their employment activities • Educational assistance for employees' children • Travel expenses, including recreational leave • Low-interest loans • Life and health insurance premiums (unless provided to all employees regardless of employment or job classification) • Contribution to social security funds over the levels specified in the law • Pension fund contributions (more than 10% of the monthly salary exclusive of fringe benefits) • Entertainment, amusement and recreation expenses, or the use of any means of connection with such activities that are not part of the employment role
<p>There is no doubt that such many kinds of large commercial signboards trigger Advertisement Tax. Disputes often arise on who is the proper taxpayer, and on the taxability of smaller or other types of advertisements.</p>	<p>Article 118, LOT defines various categories of signboards and other advertising objects, but the article's scope—especially concerning the types of objects covered and the identification of taxable persons—remains unclear and is a frequent subject of debate in practice.</p>

Name	Tax audit issue
Customs value of imported goods	This issue stems from a taxpayer using two different values for the import of goods: a (real) invoice value from the seller and a lower invoice value for customs declaration purposes.
Import volumes and export volumes	For companies that import, process and re-export, tax auditors may compare the volumes of the imported raw materials with the re-exported quantities. If the exported amount is lower than the imports, the tax auditor may take the view that the difference is made up from local, undeclared sales.

Best course of action	According to the law
The customs and income tax value of imported goods should be identical and based on only one set of invoices.	Under-declaring the value of imported goods may have short term benefits for paying customs duties, but the tax auditor may disregard the (real) invoice price and thus calculate higher taxable income.
The best course of action is to document in great detail how this difference is caused. If it is caused by waste due to the production process, the taxpayer should prepare evidence of the same. It is advised to create a record of destruction of waste materials.	Cambodia tax law has no specific rules on “normal” waste when raw materials are processed, unlike customs duty regulations (15% to 20% is often accepted by the Customs Department).

PART II TRANSFER PRICING

Under Article 18 of the LOT, the GDT holds authority to reallocate income and deductions between Cambodian taxpayers and their related parties to prevent tax avoidance or evasions, ensure accurate income reporting, and uphold compliance. Cambodia's TP framework was formally established through Prakas 986, and has since been supplemented by Prakas 574 MEF.PrK.GDT dated September 19, 2024, which applies from 2025 on.

Related party definition

There is deemed to be a related party relationship in the following cases:

- A relative of the taxpayer.
- Where one entity controls the other entity.
- Where two entities are under the common control of a third party.
- Where an entity is a permanent establishment of a non-resident taxpayer.

The term “control” means the ownership of 20% or more of an equity interest or voting power in an entity.

Transfer pricing and arm's length principle

Prakas 986 defines the term “transfer price” as the price of goods, services, or property charged between related parties.

The arm's length principle requires that the prices set for transactions between related parties (“**controlled transactions**”) should approximate the prices of transactions between independent parties under comparable terms and conditions. To ensure compliance with the arm's length principle, an entity must conduct a comparability analysis to assess the arm's length nature of the controlled price, using the five acceptable TP methodologies described below. If the transactions are not at arm's length, the GDT may adjust the value and impose tax accordingly.

Transfer pricing methodologies

To allocate income and expenses among related parties under the arm's length principle, taxpayers can apply one or more of the following methods:

TP method	What it is	When to use it
Comparable Uncontrolled Price (“ CUP ”) method	Compares the price charged for goods or services transferred in a controlled transaction to the price charged in a comparable uncontrolled transaction.	Useful for commodity transactions, financial transactions, and transactions with very reliable comparables. It is used when the entity has identical sales to both related and unrelated parties.
Resale Price (“ RP ”) method	Assesses a gross margin on reselling controlled products in uncontrolled transactions.	Most applicable to sales, marketing, and distribution transactions with available comparables.
Cost Plus (“ CP ”) method	Tests a gross markup on costs incurred by an entity having related party transactions.	Suitable for manufacturing and service provision transactions with comparables available.
Transactional Net Margin Method (“ TNMM ”) method	Tests the net (operating) profit earned by a tested party of a controlled transaction.	Often applied when a tested party can be identified, no comparables are available, and traditional methods are not reliable.
Profit Split Method (“ PSM ”) method	Splits the profits to arrive at the result that would be achieved by independent parties in comparable transactions.	Used for transactions where both parties make unique and valuable contributions (such as intangibles).

The choice of methodology depends on the specific circumstances; taxpayers must be able to provide sufficient evidence and supporting documentation to justify their chosen approach.

Documentation requirements

Taxpayers engaged in related party transactions must disclose them in Annex 1 of their annual TOI return and maintain comprehensive TP documentation. The TP documentation must include:

- **Corporate background** – including a description of the company, the corporate and ownership structure, the nature of the business, and summary financial information.
- **Business analysis** – including the competitive environment, the market and its trends, added value, and unique selling points.
- **Overview of related party transactions** – describing the nature and volume of such transactions and the pricing method used.
- **Functional analysis** – describing the activities performed by each party to the related party transactions.
- **Economic analysis** – including a discussion and justification of the appropriate TP method, and an analysis of comparable prices for the related party transactions.
- **Conclusion** – including an identification of the acceptable range of arm's length prices.

TP documentation must be retained for 10 years and submitted to the GDT upon request. Under Article 202(3) of the LOT, taxpayers have 30 days to comply with GDT requests for information.

Under Prakas 574, a prior year's TP documentation may be rolled forward to the current tax year if there are no significant changes to controlled transactions or comparability factors affecting the pricing method. However, financial benchmarks (e.g. comparable company data) must still be updated annually. Notably, taxpayers can be exempted from preparing TP documentation if they meet both of the following criteria in the tax year:

- Their annual turnover is less than KHR8 billion (approximately US\$2 million), and their total assets are less than KHR4 billion (approximately US\$1 million); and
- The total value of controlled transactions for goods, assets, services, and/or royalties does not exceed KHR1 billion (approximately US\$250,000), with loan transactions being excluded from this limit.

Which benchmarking data is permitted to be used for Cambodian TP documentations?

Cambodia currently lacks a publicly accessible, systematic, and verifiable source of local comparables for TP benchmarking. For example, as of April 17, 2025, the Cambodian Stock Exchange lists only 11 companies, severely limiting the availability of domestic financial

data. Notably, neither Prakas 574 nor Prakas 986 explicitly mandates the use of Cambodian-specific benchmarks in TP analyses, leaving taxpayers to rely on alternative approaches.

In practice, the absence of explicit guidance on permissible databases allows taxpayers to use regional benchmarking sources. However, during audits, the GDT frequently prescribes comparisons against its proprietary internal database, which is not publicly accessible. This creates a potential disconnect between taxpayer-submitted benchmarks and the GDT's undisclosed reference data, raising compliance risks for businesses.

How is the comparability assessed?

Cambodia does not yet have a local database, and the current local TP regulations are silent on which databases to use when conducting benchmarking studies. Under the arm's length principle, to determine comparability, the conditions between controlled transactions and uncontrolled transactions must be compared in terms of the following factors:

- Contractual terms of the transaction:
 - The division of responsibility, risk, and interest that is set out in the contract;
 - The terms that influence the price or profit limit, such as conditions for credit, conditions for calculating supply quantity, conditions for the guarantee; and
 - The actual implementation by the related parties compared to the implementation by independent entities. If the implementation by the related parties is different from the conditions set out in the contract, the actual implementation must be used instead.
- Functional analysis:
 - Functions performed by the parties;
 - Risks assumed by the parties; and
 - Assets employed, both tangible and intangible assets.
- Characteristics of the assets or services:
 - Product specifications: scale, quality, and quantity;
 - Type of service: feature and volume of supply; and
 - Any intangible asset involved, including the type of intangible asset and its use in the operations of the entity.

- Economic circumstances:
 - Geographical location;
 - Market size;
 - Supplementary goods or services; and
 - Government economic intervention, including price limitation and duration of transaction.
- Business strategies:
 - New innovation and product development;
 - Degree of diversification;
 - Marketing strategies to enter the market and expand and maintain market share;
 - Distribution network; and
 - Size and market location.

Penalties

Non-compliance with TP documentation requirements may result in the following penalties, applied cumulatively depending on the severity of the breach:

- **Administrative fines:** Imposition of a penalty of KHR5 million to KHR10 million (approximately US\$1,250 to US\$2,500) for obstructing the implementation of the tax provisions.
- **Withdrawal of the tax compliance certificate:** Revocation of the taxpayer's tax compliance certificate, potentially disrupting business operations.
- **TP adjustments:** Reassessment of related party transactions, leading to additional tax liabilities ranging from 10% to 40% arising from any adjustment made, and 1.5% monthly interest on unpaid amounts.
- **Criminal prosecution:** In severe cases involving fraud or tax evasion, criminal charges may apply, including imprisonment or substantial fines.

Required documentation for related party loans

The interest rate on a loan from a related party is exempt from compliance with the arm's length principle if the entity has the requisite loan transaction supporting documents—loan agreement, business

plan, or current and forecasted financial statements along with the purpose of the borrowing and explanations, and board of directors' resolution. A single-member private entity is exempted from having the board resolution.

A cash advance transaction that an entity has with a related party that has a maturity of less than one year is not considered to be a loan transaction and thus the interest rate will be exempt from compliance with the arm's length principle.

Under the new Prakas 574, Cambodian resident taxpayers (excluding financial institutions) can be exempt from compliance with the arm's length principle for related party loan transactions and are not required to prepare supporting loan documentation under Instruction 10979, if they meet either **one** of the following criteria:

- They are newly incorporated and within three years of their tax registration.
- They are a single-member private limited company with a shareholder loan balance of less than KHR3 billion (approximately US\$750,000) at any point.
- They are a sole proprietorship with loans involving the owner, spouse, or dependent children.

Frequently asked questions

No.	Question	Answer
1	When does TP apply?	The TP regulations apply when a Cambodian entity (including a local subsidiary of a foreign company) engages in transactions with related parties. Covered transactions include sales/purchases of goods or services, intercompany loans, royalties, and other financial arrangements.
2	What are the most common types of related party transactions?	<p>The most common types of related party transactions are:</p> <ul style="list-style-type: none"> • Intercompany loans • Purchases of raw materials or semi-finished goods • Sales of finished goods • Royalty payments • Payments for technical and management services
3	Since when has TP documentation been mandatory in Cambodia?	Since 2018. Formal TP rules were introduced via Prakas 986 (October 10, 2017) effective immediately. The GDT later verbally clarified that TP documentation became mandatory starting with the 2018 tax year.
4	Is TP documentation required to be updated every year?	Yes, taxpayers must prepare TP documentation yearly and retain it for submission upon request. However, under Prakas 574, exemptions apply for qualifying businesses (see criteria above).
5	How often must a benchmarking study be updated?	The financial data for the comparables used in a benchmark study are required to be updated annually as mandated by Prakas 574. A new search for comparables however is not explicitly mentioned in the domestic TP regulations, but it should be refreshed every three years, aligning with OECD recommendations. ⁴

⁴ Paragraph 38, OECD's Guidance on Transfer Pricing Documentation and Country-by-Country Reporting, 2014.

No.	Question	Answer
6	Do all group entities in Cambodia need separate local TP documentation?	Yes. Each Cambodian entity (including local branches of foreign companies) must prepare and maintain entity-specific local file documentation annually. Group-level documentation does not satisfy local requirements.
7	Are there exemptions for small/medium enterprises (“SMEs”)?	While SMEs are subject to the same audit scrutiny as larger entities, Prakas 574 exempts qualifying SMEs from preparing TP documentation if they meet specific turnover, asset, and transaction thresholds (detailed above).
8	What language is acceptable for TP documentation?	Neither Prakas 986 nor Prakas 574 specify language requirements. English documentation is generally accepted, but the GDT may request translations of key sections into Khmer during audits.
9	Is there a statutory deadline for preparing TP documentation?	No fixed deadline exists, but documentation must be readily available for submission within 30 days of a GDT request (per Article 202(3) of the LOT).
10	Are safe harbor rules available for TP compliance?	No. Cambodia does not currently implement traditional safe harbor rules (i.e. predefined pricing ranges to avoid tax disputes). However, exemptions exist for related party loan transactions under certain circumstances per Instruction 10979 and Prakas 574. For details, see the discussion under “Required documentation for related party loans”.

Common TP issues

Issue	Tax audit issue
<p>Provision or payment of intragroup services, commonly:</p> <ul style="list-style-type: none"> • Management services • Technical services • Consulting services • IT support services • Marketing services 	<p>The GDT often disallows a significant amount of a taxpayer's intragroup service expense during a tax audit if it suspects TP manipulation between related parties, which in turn results in large tax reassessments, with an additional 40% penalty plus interest also being charged.</p>
<p>Low profitability or loss-generating companies or branches:</p> <ul style="list-style-type: none"> • Limited risk distributors • Contract manufacturers • Limited risk service providers 	<p>The GDT often expects companies with limited functions to generate a consistent profitability level regardless of the economic conditions.</p> <p>In the absence of persuasive reasons, loss-making limited risk entities may stand a high risk of TP adjustments being imposed despite an unfavorable external economic environment.</p>
<p>Related party loans by banks</p>	<p>The tax position concerning related party loans has been extensively discussed and debated, as outlined in the following list:</p> <ul style="list-style-type: none"> • Before 2014 – Interest-free loans were not allowed by the GDT. • Jan 2014 – Interest-free loans were allowed by the GDT. • Oct 2017 – Loans must carry an arm's-length rate. • Mar 2019 – Lower interest/interest-free loans allowed if the required conditions are fulfilled. • May 2022 - Loans can carry an interest rate as agreed between the parties (as long as it doesn't exceed the market interest rate) and are exempt from the arm's length principle if they fulfill the criteria specified. <p>The GDT follows the rules as per the changes in May 2022, and will deem interest and reassess taxes if the appropriate documentation is not in place.</p>

Best course of action

The best course of action is to have sufficient supporting documents to prove that:

- Services are actually rendered by the related party service provider;
- Services are for the benefit of the Cambodian taxpayer, rather than its shareholder;
- Services are not a duplication; and
- Services provided give more than an incidental benefit to the Cambodian taxpayer.

At a minimum, limited risk entities may consider documenting the following qualitative and quantitative analyses in their TP documentation:

- Losses suffered by the entire supply chain within the group
- Reduction in sales volume
- Disruption in distribution channels affecting the supply and delivery of raw materials and finished goods
- Extraordinary expenses due to COVID-19—costs of adhering to the pandemic rules, bad debts written off due to non-payment by customers

For a related party loan to be exempt from the arm's length requirement, the taxpayer must have the following supporting documents:

- Loan agreement with a specific loan period and repayment
- Business plan or current and forecasted financial statements and the purpose of borrowing together with an explanation
- Board of directors' resolution (for an entity that is not a single-member private limited company)

The interest rate cannot exceed the market interest rate during the borrowing. The market interest rate is the average interest rate of at least five local commercial banks, which the GDT sets annually.

Issue	Tax audit issue
Commissions and fees earned by subsidiaries (e.g. of shipping liners)	Tax auditors typically challenge whether the commissions and fees charged by subsidiaries to related parties are consistent with arm's length pricing. They also examine the economic substance of the transactions, determining whether the subsidiaries are genuinely providing services or if the transactions are a means to shift profits or avoid taxes.
Implicit services	When a related party that takes care of certain matters for a Cambodian subsidiary without any charge, the tax auditor might claim that this is in fact a service for which a fee (with WHT) should be paid, or a free gift which is taxable as income.
Selling goods or services to related and unrelated parties	Tax auditors may use the (higher) price of goods sold to unrelated parties to assess any sales to related parties

Best course of action

When addressing TP issues related to commissions and fees earned by subsidiaries, it is recommended to perform a thorough TP analysis to determine the arm's length nature of the commissions and fees earned by subsidiaries. This analysis should include a detailed examination of the functions performed, risks assumed, and assets employed by the subsidiaries in generating the commissions and fees.

Carefully assess if there are informal, implicit services being provided. If there are, verify how these can best be explained from the perspective of unrelated parties.

The CUP method should only be used if the transactions are comparable in all significant respects. Often, major differences in volume mean that the CUP method should not be used.

Andersen Cambodia Transfer Pricing Reports



Histogram, Intervals, Scatterplot



ANDERSEN IN CAMBODIA

No. 33, Street 294 (corner of Street 29)

Sangkat Tonle Bassac

Khan Chamkarmorn

Phnom Penh 120101

T: +855 23 964 430~434

F: +855 23 964 154

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