



គណៈកម្មាធិការ
សហប្រតិបត្តិការដើម្បីកម្ពុជា
Cooperation Committee
for Cambodia
Comité de Coopération
Pour le Cambodge

ទស្សនវិស័យ: ការអភិវឌ្ឍប្រកបដោយនិរន្តរភាពសម្រាប់ប្រទេសកម្ពុជា

Vision: Sustainable development for Cambodia

Minute The 23rd Financial Learning Forum

“The Real Practice Taxation for Not-for-Profit Entities”

Date: 12 March 2019, 8:00am – 5:00pm



Venue: Diakonia Center #19-21, Street 330, Boeung Keng Kang III, Chamkamorn, Phnom Pen

Partnerships for Sustainable Development in Cambodia

www.ccc-cambodia.org
info@ccc-cambodia.org
T +855 (0)23 214 152

#9-11, Street. 476,
Toul Tompoung 1, Chamkamorn
P.O. Box 885, Phnom Penh, Cambodia



I. Introduction

As the largest membership-based platform for Non-Governmental Organizations (NGOs) in Cambodia. Currently, the Cooperation Committee for Cambodia (CCC) has 181 international and local NGOs as members, working on different development sectors in the country.

One of seven program strategies is **Learning and Capacity Development** for CCC members and other interested CSOs. Normally, CCC organizes four learning forum platform every year, learning forum on Human Resource Management (HRM), Monitoring and Evaluation (M & E), Information Communication Technology (ICT) and Finance Management forum, they are very importance to build the capacity of its members for better performance of their service delivery.

To ensure the quality of the learning forum CCC has formed the Working Groups to provide inputs and advice for NGO learning community in Cambodia. The Working Group will play role as an oversight committee to provide strategic and technical support to NGO community for effectiveness and efficiency development in Cambodia.

To keep responding to the needs of the NGO community, CCC conducted the 23rd Finance Learning Forum on ***“The Real Practice Taxation for Not-for-Profit Entities”***.

II. Objectives of the Finance Learning Forum

- To Enhance understanding on tax compliance with non-for-profit entities
- To learn and discuss the real practice of how to register TIN, VAT, tax on salary, withholding tax, and annual income tax.
- To strengthen relationship and network among finance practitioners and professionals for ongoing learning on Financial Management issues and good practice.

III. Expected outputs

- Participants will have better understanding of tax compliance and the practical taxation for Not-for-Profit Entities on VAT, salary tax, withholding tax, and annual income tax.
- Participants will be better calculation and preparation for annual tax declaration.
- Participants will have more chance to learn, share, and build up more relationship among people who have same interest from similar fields.

IV. Result of the forum:

The forum had 184 participants (104 women) which from 84 NGOs with 56 foreign NGOs, and 21 participants whose are non CCC member. The main results of the forum including:

4.1: Welcome and Opening Remark

The welcome and opening remarks was provided by Mr. Khon Bunthong, Head of Operation of CCC. The first of all, he welcomed to all participants and mentioned that taxation is main issue for NGOs which have to comply with. In the past year (2018) CCC had conducted many events both national and sub national levels about law compliance. Prakas No101 that CCC's had received from GDT which agreed and approached on the establish Join Taxation Working Group. The Working Group is a mechanism to bring main issues from CSO to GDT in order to find the best solution. Moreover, the main income for Government is from tax collection thus, the will collected the tax to hit their annual target. GDT encourages to all NGOs not yet register, please go to register before March 31, 2019. CCC has submitted a letter to NAC (National Accounting Council) in order to establish Join Working Group. According the result of meeting of Taxation Working also suggested to CCC coordinate join working group between CSO with Ministry of Labour and Vocational Training. At the last, he also wished to all participants please have good health and success in work and life.



4.2: Session1: Review last learning forum topics on “Cambodian Financial Reporting Standards for Not-for-Profit Entities” by Mr. Meas Kheang, Operation Director, CCIM/VOD

- All NGOs have to product annual financial report to submit to NAC in Khmer
- Standard Financial Report Format (case basic, currency is Riel)
- Deadline for submit report to MoI and Ministry of Economic and Financial on 28 February 2018

(Please refer to slide presentation for detailed information)



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4.3: Session2: Introduction about How to register VAT TIN, Tax on salary, Fringe benefits calculation, VAT, Withholding tax:

4.3.1: How to register VAT TIN

- Before registering with General Department of Taxation (GDT), the entity must register with bellow:

- Ministry of Commerce of normal **company**
 - Ministry of Interior for **local NGOs**
 - Ministry of Foreign Affair and International Cooperation for **Foreign NGO**
- Then bring the above registration documents together with some key documents to register with the GDT such as: lease agreement or property title, letter confirming bank account opening, passports, pictures & letters of residency of all directors, shareholders & shareholders representatives, letter confirming source of fund (for NGOs), etc.
- Reflection on real practice of Register VAT TIN:
- The process is taking time around one month
 - Base on his experience for company is taking time around 2 years
- **The process of registration is:**
- Bring the documents to key-in preliminary info in the GDT's system
 - Pay various fees to the GDT i.e. registration fee of US\$100, stamp duty of US\$250 and patent tax
 - Do formality (i.e. taking photo and scanning fingers-print) – done by chairman, director or representative
 - Provide any additional documents required by tax officials
 - Follow up the process
- When the registration is completed, all registration documents (i.e. VAT certificate, patent tax certificate, approval letter and identification card) will be delivered to entity's premise.



According to speaker experience in real practice, he was register by heart copy registration (form), it is easier than E registration. He also introduction about Taxation Registration Form.

(Please refer to the attach for the detail about Taxation Registration Form)

4.3.2: Tax on Salary (“TOS”) and Fringe Benefit Tax (“FBT”)

This part is taxation for staff, is not for NGO. This section is focusing on the following:

- General Principles

- How to Calculate TOS
- Who is Subject to TOS?
- Residence
- Taxable Salary
- Income Paid Abroad
- Short-term Assignments
- Fringe Benefit Tax

General principles:

Tax on Salary (TOS) is using cash basis:

- Monthly tax
- Resident vs. non-resident
- Employee vs. contractor
- Progressive rates from 0-20%
- Aimed at all types of remuneration paid to employee
- Taxed on a cash basis

Residence:

▪ **Effects of residence**

- Foreign-sourced salary subject to Cambodian tax
- Foreign tax credit
- Progressive tax rates
- Reduction of tax base by KHR150,000 per child/house wife

Who is subject to TOS?

The facilitator also introduced about Family taxation plan (for family whose are working both wife and husband)

▪ **Employee: If any physical person is employed in accordance with any two of the following conditions, he/she shall be considered as an employee and is subject to salary tax:**

- No risk of not being paid for employment services
- Cannot determine the time and place for fulfillment employment activities by him/herself
- No large capital required (buying equipment for use in his/her employment activities)
- Does not perform his/her employment activities for many persons at the same time

▪ **Employer**

- Resident or non-resident
- Legal person or individual
- Profit or non-profit
- Government or private

▪ **Who is subject to TOS?** The TOS is the debt of the physical person receiving the salary and this tax will collect through withholding by the employer at the time of salary payment.

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- Direct tax: the tax charge on the income of individual
- Indirect tax: the value added on tax (e.g: VAT 10% when we buy goods and services)
- Tax on Tax:

Taxable salary:

All income from employment include: Basic monthly wage / salary, Bonuses, Overtime and Salary advance.

Not: Pension fund, Reimbursement of business expenses, Uniforms and professional equipment, Indemnity payment for layoff within the prescribed limit under Cambodian Labor Law, Flat allowance for mission and travel cost received in the course of employment.

TAXABLE MONTHLY SALARY						
	KHMER RIEL (KHR)		EQUIVALENT TO US\$*		PROGRESSIVE TAX RATE	
From	0	- 1,200,000	0	- 300	0%	
From	1,200,001	- 2,000,000	300	- 500	5%	
From	2,000,001	- 8,500,000	500	- 2,125	10%	
From	8,500,001	- 12,500,000	2,125	- 3,125	15%	
Over	12,500,000		3,125		20%	

**Using an exchange rate of KHR4,000:US\$1, Non-Residents are taxed at a flat rate of 20%*

Below is how TOS is calculated:

CALCULATION				
	KHMER RIEL (KHR)		TAX RATE	TOS CALCULATION
From	0	- 1,200,000	0%	0
From	1,200,001	- 2,000,000	5%	(Tax Base*5%) – 60,000
From	2,000,001	- 8,500,000	10%	(Tax Base*10%) – 160,000
From	8,500,001	- 12,500,000	15%	(Tax Base*15%) – 585,000
Over	12,500,000		20%	(Tax Base*20%) – 1,210,000

Short-term assignments:

- **No TOS paid for technical or other services where the payer of the salary does not have a presence in the Kingdom of Cambodia in the form of a permanent establishment or fixed base of operation:**
 - The employee is present in the Kingdom of Cambodia for no more than 182 days in any period of twelve months ending in the current tax year;
 - The employee receives remuneration or salary that is paid by or on behalf of an employer who is not a resident in the Kingdom of Cambodia;

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- The remuneration or salary paid to the employee is not borne by a permanent establishment or fixed base of operation maintained by the employer in the Kingdom of Cambodia.

Fringe Benefit Tax

- **Fringe benefits include:**

Private use of motor vehicle; Meals and accommodation; Payment of rent or the provision of rent-free housing; Electricity, water, telephone; Domestic servants; Loans with concessional interest rates; Non-employment-related educational expenses, including children's education; Life or health insurance, where the same insurance is not available to each employee, irrespective of position; Payment for expenses for entertainment and leisure that are not directly related to employment.

- **Taxed at 20% on taxable value**
- **Taxable value of fringe benefit is calculated by dividing the value of fringe benefits by 0.8 (Gross up method)**
- **Prakas 599, dated 15 July 2009, issued by the Ministry of Economy and Finance and Notification 973 dated 26 August 2009, reconfirmed that, for the purpose of calculating withholding tax (i.e. WHT, Tax on Salary and Tax on Fringe Benefits), no "gross-up" is required.**

A number of benefits that may be subject to the FBT may be overlooked by the taxpayer

- The use of motor vehicles
- The provision of meals and accommodation support (including utilities and domestic helpers)
- Low interest loans and discounted sales
- Educational assistance (unless employment related, for example for training)
- Educational assistance for the employee's children
- Certain insurance support where the same insurances are not available to each employee, irrespective of position
- Excessive unnecessary cash allowances and social welfare in excess of the level provided in the law
- Pension contributions in excess of 10% of the employee's monthly salary exclusive of fringe benefits
- Payment for expenses for entertainment and leisure that are not directly related to employment
- **Fringe Benefit Tax exemption (Circular no. 011 MEF dated 6 Oct 2016)**
- Allowance for transportation from workers or employees' accommodations to the factory or workplace and vice versa, and housing allowance or accommodation in the factory complex, as determined by the Labor Law;
- Meal allowance provided to employees and workers regardless of their positions or functions,
- National Social Security Fund or Social Welfare Fund at the level determined by the Labor Law;
- Health insurance or life and health insurance premiums provided to all employees and workers regardless of their positions or functions;

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- Infant allowance or infant care center expense determined by the Labor Law; and
- Compensation for layoff or indemnity for layoff within the limit as provided in the Labor Law.

Practical issue:

- Visa extension
- Food and accommodation (during mission, business travelling, ...)
- Phone allowance

4.3.3: Withholding Tax (“WHT”)

NGO has WHT focus on:

- Other service
- Budget Booking has two way to record (1- Payment (need to pay tax), 2- Deposited, do not need to pay tax). Tax payment have to pay at less on 20 of next month.
- WHT has apply both cash basic and accrual basic

4.4. Annual Tax on Income (“TOI”)

4.4.1. Overview of Tax on Income:

Tax on Income (“TOI”) is the debt of a resident person on income from Cambodian and foreign sources, and of a non-resident person on income from Cambodian sources [Art. 2 of the Law on Taxation (“LOT”) and Chapter 1 of the TOP Prakas].

Cambodian and foreign sources of income are outlined in Art. 33 and 34 of the LOT and Sections 1.3 and 1.4 of the TOP Prakas.

Where there is insufficient information to determine what the source of income is, or where the rules set forth so far cannot clearly identify that the income is from any one source the tax authorities are the one to decide on the source of that income [Art. 35 of the LOT and Section 1.5 of the TOP Prakas].

Taxable profit is calculated from the accounting profit or loss after making adjustments for various non-deductible expenses and non-taxable income items [Chapter 9 of the TOP Prakas].

Taxable profit is the net profit obtained from the results of all types of operations carried out by the enterprise, including gains from the sale of assets during the operation or at the close of the business, as well as income from financial or investment operations, and interest, rental and royalty income [Art. 7 of the LOT and Section 2.2 of the TOP Prakas].

Section 1.6 of the TOP Prakas outlines the income not subject to TOI and Chapter 4 outlines the income subject to TOI.

4.4.2. TOI for NGOs

- **Article 9 of LOT states that income tax is exempt on income:**

- any NGO organized and functioned purely for the religious, charity, scientific, or educational purposes, and no asset or income of which is used for the private interest
- any association, provided that no income of which is used for private interest of the shareholders or physical persons
- **Prakas 464 MEF.Prk states that exempt income includes legal funds or donations from individuals or entities, resources or assets of the association or NGO, contribution of its members, and other sources of income.**
- **To be eligible for tax exemption, NGOs shall apply to the GDT to request for approval and attach the following documents:**
 - statute and letter of approval on registration at the Ministry of Interior, for local associations and NGOs
 - Memorandum of Understanding with the Ministry of Foreign Affairs and International Cooperation, for foreign associations and NGOs
 - Additional documents may be required by in-charge tax officers
- **Normally, it takes around 1 or 2 months to obtain approval from the GDT.**
- **Assuming the NGOs obtain approval from the GDT, the NGOs are still required to submit TOI return every year to the GDT. However, the NGOs only needs to complete info from page 1 to page 6 of the TOI return only.**

4.4.3. TOI for NGOs subject to TOI

- **Prakas 464 MEF.Prk also provides that if NGOs earn income from business activities, such income will be subject to TOI.**
- **Article 8 of Prakas 464 MEF.Prk talks about business activities besides pure NGO activities:**
 - Activities of associations or NGOs, which are not the pure NGO activities as stated in Paragraph a, Article 6 of this Prakas, that are done to generate income or fund shall be considered separate business activities and shall be subject to tax in accordance with applicable tax laws and regulations
 - The association and NGO shall be obliged to register with tax administration and record a separate account book for their business activities which are not NGO activities

Tax rates:

TOI rate [Art. 20 of the LOT]

- Legal person (company) – 20% (standard rate)
- Profit from exploitation of natural resources – 30% (oil & gas, mining)
- Qualified investment project (QIP) registered before 2003 – 9% (not available after 2010)
- Tax exemption period – 0%

Special regime

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- **Insurance company – 5% on gross premiums for insurance/reinsurance of property and other risks. [Art. 21 of the LOT]**
- **Insurance/reinsurance of life with saving component & unrelated business activities – 20% [Art. 22 of the LOT]**

Non-deductible expenses

Article 19 of the LOT

- Expenses considered as amusement, recreation or entertainment
- Personal expenses
- Prepayment of Profit Tax (PPT), Minimum Tax/TOP
- Withholding Tax (WHT), Tax on Salary and Fringe Benefit Tax (Prakas 599)
- Loss on any sale or exchange of property between related parties
TOP Prakas [Sections 5.1 and 5.10]
- Expenses pertaining to previous periods or expenses for subsequent periods
- Penalties (e.g. tax, customs, economic or price regulations, criminal...)
- Donations, grants, subsidies
- Loss and expense due to abnormal act of management

Provisions [TOP Prakas Section 2.7]

- **A provision is generally a non-deductible expense**
- Business is not allowed to deduct, for tax purposes, any provision established to absorb an expense or a loss that has not actually been incurred, even if it is probable that it will become an expense or loss.

Example: Provision for doubtful debt

- Increase in provision is not deductible=> to add back (E4 of page 9)
- Decrease in provision is deductible=> to deduct (E27 of page 10)

Common provisions:

- **Allowance for doubtful debt**
- **Allowance for stock obsolescence**
- **Allowance for damaged stock (stock loss)**
- **Allowance for slow-moving stock**
- **Provision for litigation (contingencies)**
- **Provision for warranty claims**

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Tax depreciation

- Tax depreciation is based on the following depreciation methods [Art. 13 and 14 of LOT & Sec 6.5 TOP Prakas]:

	METHOD	RATE
Intangible Property		
▪ Having a specific useful life	Straight-line	Based on useful life
▪ If there is no specific useful life	Straight-line	10%
Tangible Property		
▪ Class 1: Buildings and structures, including their basic components	Straight-line	5%
▪ Class 2: Computers, electronic information systems, software & data handling equipment	Declining Balance	50%
▪ Class 3: Automobiles, truck, and office furniture and equipment.	Declining Balance	25%
▪ Class 4: All other tangible property	Declining Balance	20%

Tax losses carried forward:

Art. 17 of the LOT and Section 9.5 of the TOP Prakas:

The accumulated tax losses can be used to offset against future year profits (for a maximum 5 years) subject to the following conditions:

- The GDT has not issued a unilateral tax assessment for any of the above tax years in question;
- There is no change in the business activities of the enterprise;
- There is no change in the ownership of the enterprise; and
- The loss must be recorded in the tax return that has been submitted to the tax authorities within the period of time as specified in the tax provisions.

The facilitator also introduction how to fill the Annual Income Tax Return for The Year End

Note:

Tax Period (Number of month): according to the approval letter of TIN registration (first year)

Balance Sheet (A)

-Please taking the Code No from Excel Sheet fill into the report base on each code number

- Income Statement (B)

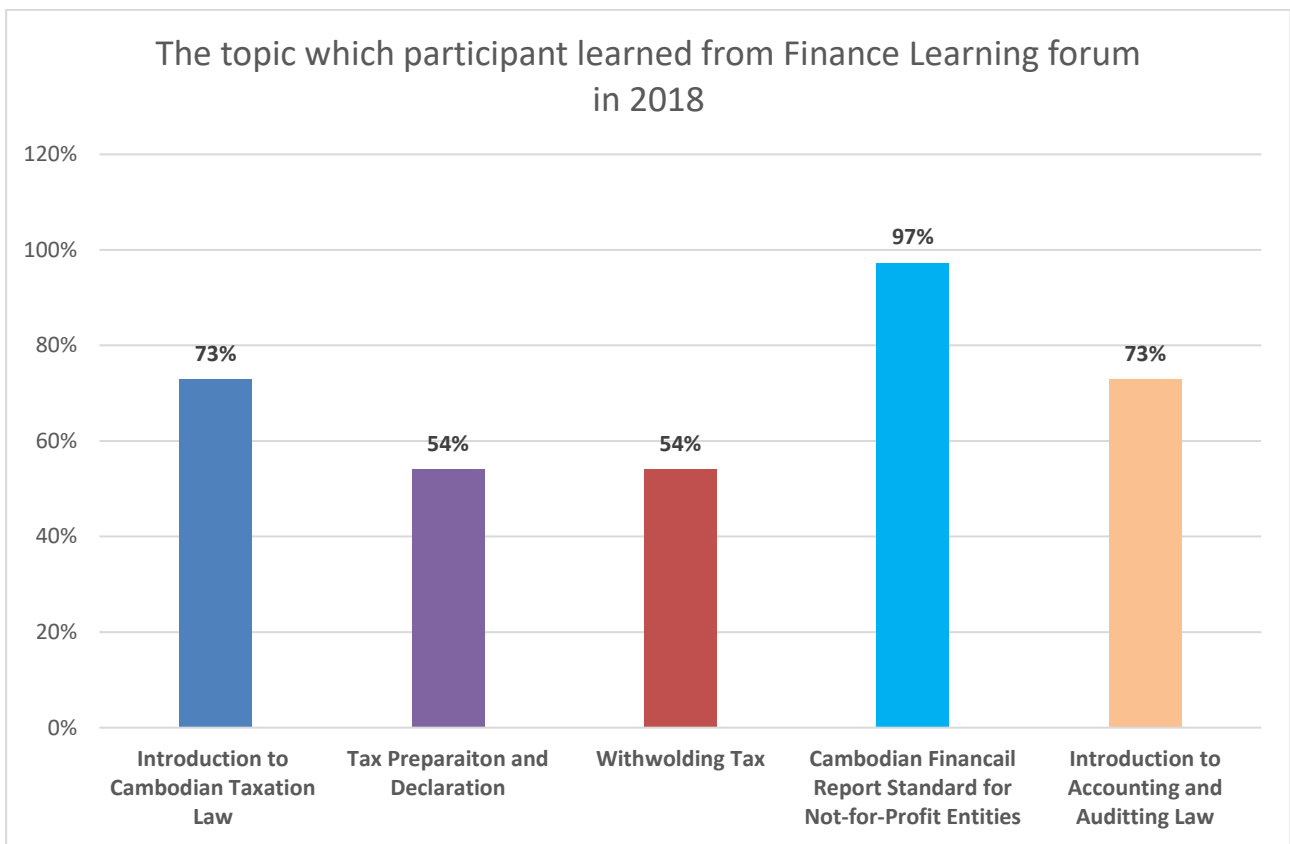
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Note: NGOs have to completed from page 1 to 6 for other please do not consider

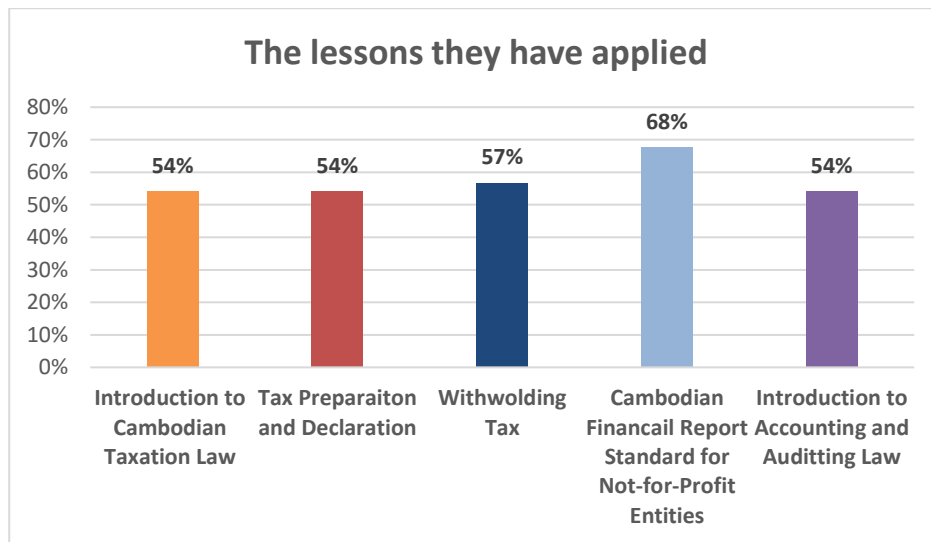
4.5. Result of survey and evaluation on the learning forum

4.5.1: Result of survey on the learning forum

In 2018, CCC organized two finance learning forums with the main topics including 1)- introduction to Cambodian Taxation Law, 2)- Tax Preparation and Declaration, 3)- Withholding Tax, 4)- Introduction to Accounting and Auditing Law, 5)- Cambodian Financial Reporting Standard for Not for Profit Entities. There are 55 respondents from 46 NGOs have provided information to reflect on the finance learning forum including what topic they have learned, what lessons they applied and result after plied the topics from learning forum which focus on the personal and organizational changes. The result of survey shown that, there were 37 equals to 67% of 55 participated in the in Financial Learning Forum. The topics which they have learned including:



The result also shown that, 100% (37) whose participated in the finance learning forum in 2018 have applied the lesson gain the learning forum including



After they applied the lessons have learn from the finance learning forum they also mention about the change both individual and organization including:

Individual:

- Clearly understanding about paying tax, declaration of tax and how it processes
- Financial reports are preparing accurate
- Getting more knowledge about accounting and auditing law, taxation law and financial standard report
- Have confidence to calculate tax and prepared document to submit to taxation department

Organization:

- Compliance with Cambodia taxation law and follow standard report for relevant ministries
- Become professional in documents
- Practicing follow current policy that is changed very year
- Understanding clearly how to submit documents tax, pay tax
- Avoid penalties
- The organizations are legally by following the law of Government of Cambodia

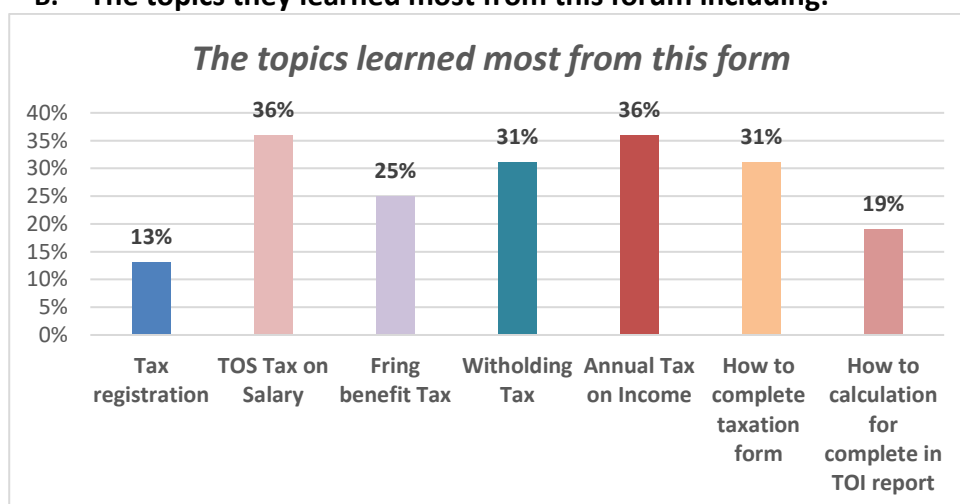
4.5.2: Result of Forum evaluation

There are 75 participants have provided feedback and result of the finance learning forum including:

A. General of the learning forum

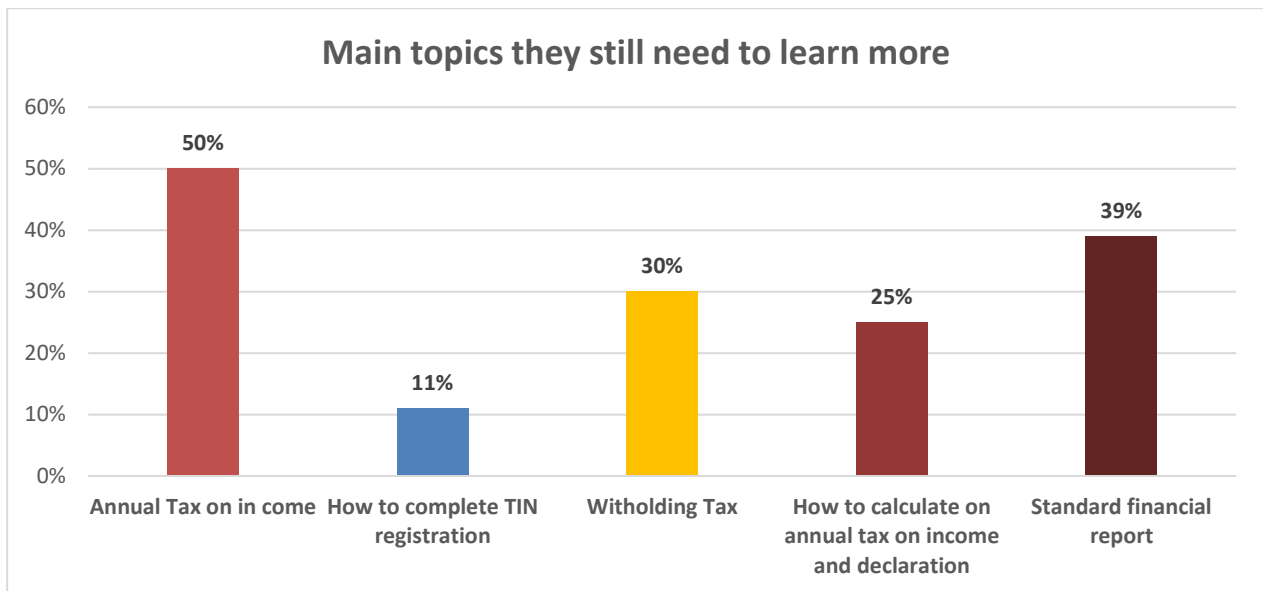
Item	Score (%)				
	Lowest %	Low %	Fair %	High %	Highest %
Participant and interaction were encouraged	0	0	8	77	15
The topic covered were relevant to me	0	0	3	37	60
The content was organized and easy to follow	0	0	23	64	12
The material distribute were helpful	0	0	9	72	19
This forum experience will be useful in my work	0	0	9	64	27
The speaker/facilitator was knowledgeable about the forum topics	0	0	3	64	33
The speaker/facilitator was well prepared	0	0	7	69	24
The forum objectives were met	0	0	27	57	16
The time allocated for the forum was sufficient	0	8	44	40	8
The meeting room and facilities were adequate and comfortable	0	0	11	64	25
Overall about this forum	0	0	7	80	13

B. The topics they learned most from this forum including:



C. The topic still needs to learn more

According to the result of feedback from 75 participants on the main topics which they still need to learn more are 5 topics including:



D. The main topics which participants will applied for their work

According to the result of the survey from 75 participants shown that, the main topics which they learn from this forum to applied in their daily work including:

- How to calculate for complete in TOI Report
- How to completed taxation registration form
- Declaration for fringe benefit
- Withholding Tax
- Declaration of Annual tax income

E. Improving for more efficient of the forum

According to the result of According to the result of the survey from 75 participants have provided feedback for improving point to make more efficient the forum including:

- Should focus on the topics (do not talk much out of topics)
- Should have more time
- Should have more time for Q&A
- Should be more detail in each topic
- Should have more group discussion and tax exercise

Annex: Detailed Agenda

Time	Key Contents	Resource persons
07:30-08:00	Registration	<ul style="list-style-type: none"> • CCC Team
08:00-08:20	National anthems Introduction to objectives of learning forum, and General announcements	<ul style="list-style-type: none"> • Ms. Luy Theary, Capacity Development Manager, CCC
08:20-08:30	Welcome and Opening Remarks	<ul style="list-style-type: none"> • Mr. Soeung Saroeun
08:30-09:00	Session1: - Review last learning forum topics on “Cambodian Financial Reporting Standards for Not-for-Profit Entities”	<ul style="list-style-type: none"> • Mr. Meas Kheang, Operation Director, CCIM/VOD
9:00-09:15	Coffee Break	All
09:15-12:00	Session2 : - How to register VAT TIN - Tax on salary (Template & calculation) - Fringe benefits calculation - VAT - Withholding tax (Goods and services) Practice exercise on real template Q&A	<ul style="list-style-type: none"> • Mr. Sim Laysym, Partner, VDB Loi Limited
12:00-01:30	Lunch Break	All
01:30-03:30	Session 3: - Tax on Profit and Annual income tax calculation and declaration Practice exercise on real template Q&A	<ul style="list-style-type: none"> • Mr. Sim Laysym, Partner, VDB Loi Limited
03:30-03:50	Session 4: General Reflection of Finance Learning Forum	<ul style="list-style-type: none"> • All participants
3:50-4:10	Coffee Break	All
4:10-4:30	- Discussion on the Next Topics - Participant’s Feedback	Ms. Sreng Sophorn Lakhena Capacity development Assistant , CCC
4:30-4:50	Conclusion and Closing	CCC or Working Group member

Note: CCC reserves the rights to change the agenda based on the availability of the speakers and time constraints.

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