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## CLIENT UPDATE 2016 AUGUST

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### TAX

## MEF Provides Tax Incentives to Educational Institutes Until 2018

The Ministry of Economy and Finance (“MEF”) has issued Prakas No.904 on Tax Incentives for Educational Institutes dated 08 August 2016.

This Prakas aims to provide tax incentives for the education sector in order to support and enhance human resources development and to reduce the expenses of parents and guardian of students. The objective is to determine the mechanisms in the implementation of tax on profit, withholding tax and Value-Added Tax (“VAT”) that are applied to educational institutes in the Kingdom of Cambodia.

Under this Prakas, “Educational Institutes” refers to public and private educational establishments which provide educational service from kindergarten to tertiary education. This also includes technical and vocational training institutes. The Educational Institutes are awarded the tax incentives as follows:

- Suspend the payment of Minimum Tax of 1% on annual turnover until the end of 2018;
- Suspend the payment of Prepayment of Profit Tax until the end of 2018; and
- Pay tax on profit only if there is taxable profit.

Besides, the provision of scholarship to students, either in full or partially, will not be considered as taxable revenue for the calculation of annual tax on profit. The proof of such scholarship is required.

In relation to withholding tax, Educational Institutes are required:

- For transactions with resident taxpayers who are not under the Self-Assessed Regime, to withhold tax for services on construction, engineering, architecture and other services which are indirectly involved with students’ education and for rent of movable or immovable property, royalties and interests. Withholding tax for management or consultation services or other similar services which are directly involved with student’s education shall be exempted. In such cases, the receipts or documents proving the payments shall be submitted to the tax authority on a monthly basis; and
- For transactions with non-resident taxpayers, to withhold tax on interests, royalties, rental and other revenue related to the use of property and dividend. Withholding tax for management and technical services which are directly involved with students’ education shall be exempted.

In relation to VAT, any supply of educational service, goods and other services for education including food and accommodation for students are VAT-exempted. VAT inputs related to the provision of VAT-exempted supplies cannot be claimed as VAT credit, but are allowed as deductible expenses.

Regardless of the above incentives, Educational Institutes are obliged to comply with the tax obligations such as: (i) tax registration; (ii) monthly and annual tax declarations; (iii) having appropriate accounting system; and (iv) for educational establishments having an annual turnover of more than KHR 2,000 million, submitting the audited financial statements performed by a licensed independent accounting firm.

This Prakas is effectively applicable starting 08 August 2016. However, such incentives will not be applicable to any educational establishment that fails to comply with the provisions of this Prakas.

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### ***ASEAN Economic Community Portal***

With the launch of the ASEAN Economic Community (“AEC”) in December 2015, businesses looking to tap the opportunities presented by the integrated markets of the AEC can now get help a click away. Rajah & Tann Asia, United Overseas Bank and RSM Chio Lim Stone Forest, have teamed up to launch “Business in ASEAN”, a portal that provides companies with a single platform that helps businesses navigate the complexities of setting up operations in ASEAN.

By tapping into the professional knowledge and resources of the three organisations through this portal, small- and medium-sized enterprises across the 10-member economic grouping can equip themselves with the tools and know-how to navigate ASEAN’s business landscape. Of particular interest to businesses is the “Ask a Question” feature of the portal which enables companies to pose questions to the three organisations which have an extensive network in the region. The portal can be accessed at <http://www.businessinasean.com/>.

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