

Tax

Implementation of Value Added Tax for Non-taxable Supplies

The Ministry of Economy and Finance (“**MEF**”) issued Prakas No. 559 on 25 May 2017 (“**Prakas**”) concerning the implementation of value added tax (“**VAT**”) for non-taxable supplies. The Prakas aims to provide all taxpayers the exhaustive list of non-taxable supplies as well as provide certain relevant definitions following the amendment in the 2017 Law on Financial Management.

According to the Prakas, there are 11 categories of the supplies that are non-taxable in Cambodia, meaning that taxpayers operating with these 11 categories are not required to charge VAT to the customers. Listed on the 5th range of the 11 categories are the Primary Financial Services.

Previously, neither the tax authorities nor the MEF had specified the scope of Primary Financial Services that were subject to VAT exemption. This Prakas provides a definition to the Primary Financial Services referring to any financial services that are profited from the margin/variance basis including:

- a. Transactions of taking deposits, providing loans or lending excluding service fees related to the provision of loans or lending;
- b. Issuance of securities in the primary market, trading of securities or other financial instruments, and clearing and settlement services within the Cambodia Securities Exchange;
- c. Foreign exchange services;
- d. Pawn brokerage services; and
- e. Trading of gold that has not been processed as jewellery.

Based on the above detailed items of Primary Financial Services, all banking and financial institutions are obligated to charge VAT to customers except services fee for transactions of taking deposits, interest income, trading of securities, foreign exchange services fee, pawn brokerage services fee and trading of non-processed gold.

According to Article 5 of the Prakas, the 11 categories of non-taxable supplies are as follows:

1. Public postal service;
2. Hospital, clinic, medical and dental services and the sale of medical and dental goods incidental to the performance of such services;
3. Services of transportation of passengers by a wholly state owned public transportation system;
4. Insurance services;
5. Primary financial services;
6. Importation of articles for personal use that exempt from custom duties;
7. Non-profit activities in the public interest;
8. Educational services;
9. Electricity and clean water;
10. Unprocessed agricultural products; and
11. Services relating to the collection or removal of waste material either solid or liquid

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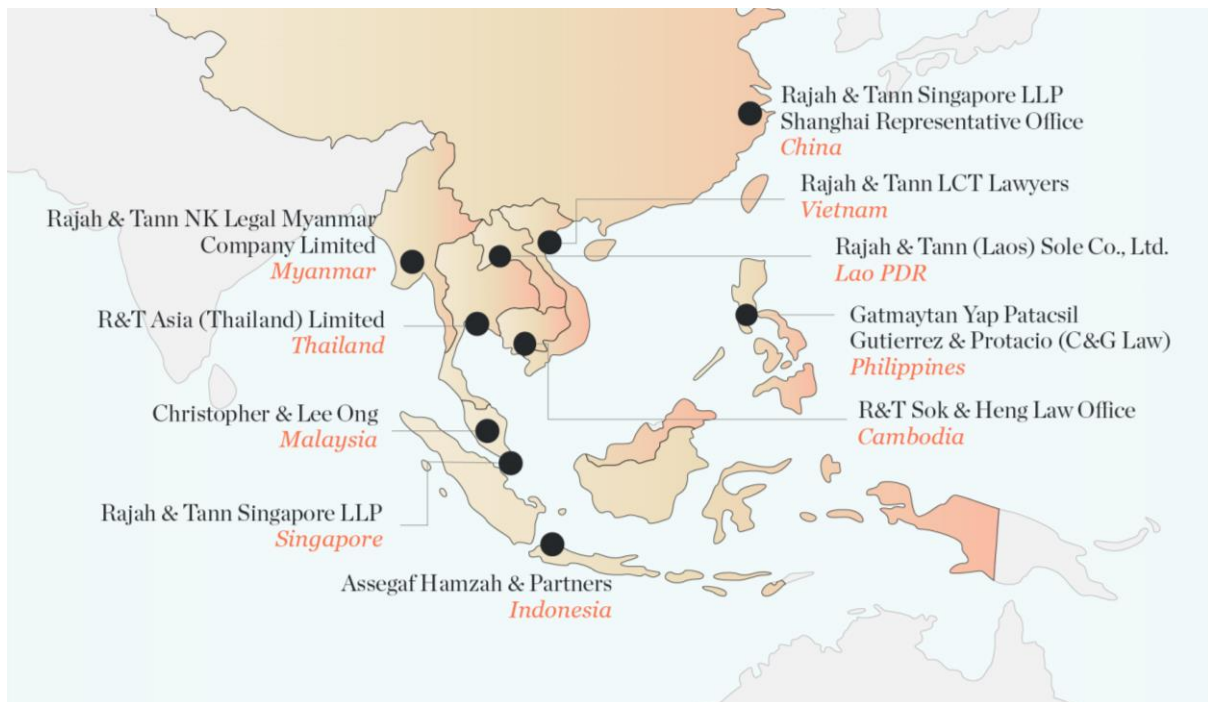
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