
Tax

Implementation of Reduced Withholding Tax on Interest for Loans from Abroad for MFIs

The Ministry of Economy and Finance (“MEF”) issued on 27 October 2017 Prakas No. 1129 (“Prakas”) concerning the implementation of withholding tax (“WHT”) on interest for loans from abroad. The Prakas aims to reduce charges on interest expense for loans that micro-finance institutions (“MFIs”) borrow from overseas lenders. MFIs in this Prakas refer to MFIs under the banking and financial law and regulations in Cambodia.

As stipulated in Article 26 (new) of the Law on Taxation, interest payments for loans borrowed from non-resident taxpayers are subject to 14% WHT.

According to Article 4 of the Prakas, the 14% WHT must be implemented as follows:

- (i) MFIs shall withhold 10% of the interest amount paid to non-resident taxpayers.
- (ii) The remaining 4% is considered as state charge in the form of subsidy to the micro-finance industry.

The tax incentive in Article 4 of the Prakas is only effective for interest payments made in years 2017 and 2018. However, it is not retrospective to interest payments made before the effective date of this Prakas, which is 27 October 2017.

To enjoy the tax incentive under this Prakas, MFIs must maintain the following supporting documents:

- a. loan agreements which are endorsed by lawyers of both parties of the agreements;
- b. supporting documents for the remittance of the related loan proceeds; and
- c. clear and proper records of the loans in the accounting books.

The above three supporting documents are not required to be attached to the tax returns, but must be maintained for the purpose of future tax audit.

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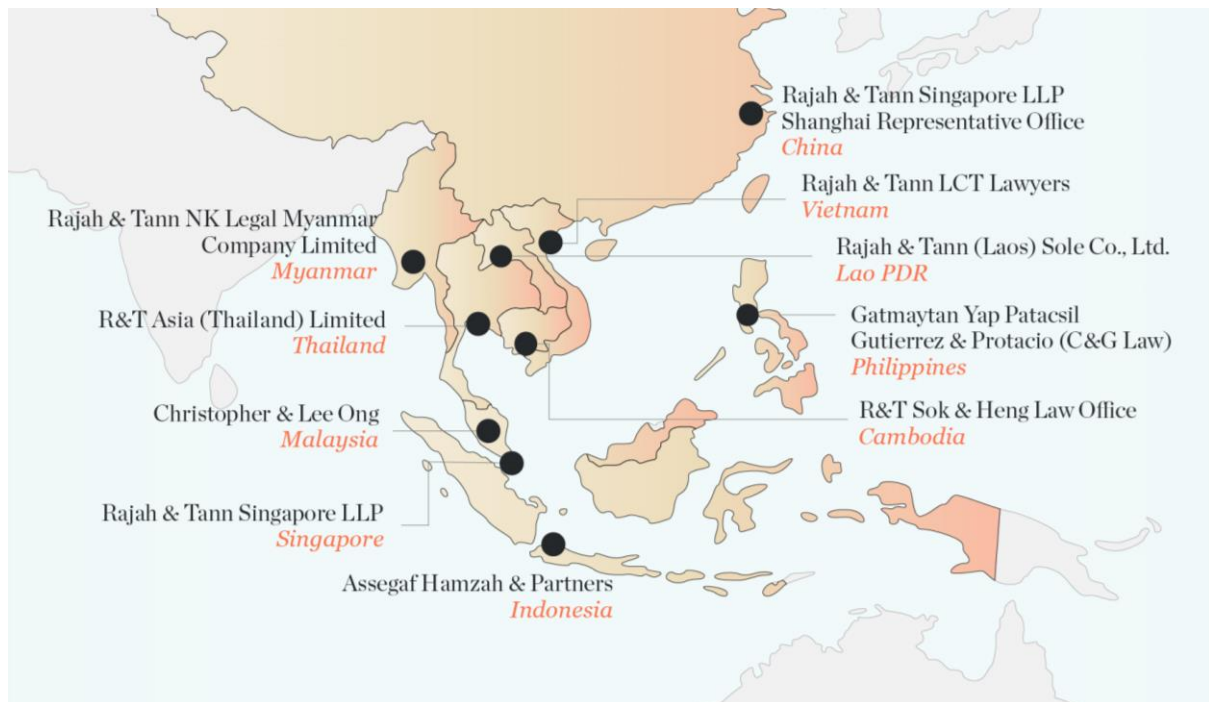
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