

Cambodia Issues Latest Round of Incentives for Businesses

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Cambodia has issued incentives on December 23, 2020, ranging from tax holidays to financial aid for businesses impacted by the pandemic.

- *The government will also reduce the withholding tax rate for new loans to five percent for 2021 and 10 percent for 2022.*
- *Suspended workers in the textile, garment, and apparel manufacturing industry will continue to receive financial aid of up to US\$40 per worker per month until the end of March 2021.*
- *The textile and garment sector is vital to the economy, as it accounts for over 80 percent of Cambodia's total exports and 16 percent of GDP.*

On December 23, 2020, Cambodia issued its seventh round of incentives to support the private sector due to the economic impact caused by the [pandemic](#).

The latest incentives provide financial aid to suspended workers in the textile, garment, and apparel sectors and monthly tax exemptions for hotels, guesthouses, travel agents, and restaurants operating in selected provinces.

Cambodia's textile and garment industry plays a vital role in the economy, contributing to 80 percent of all exports and some 16 percent of total GDP. More than 400 garment factories have suspended operations throughout 2020, impacting over 150,000 workers. The tourism industry contributes to 12 percent of GDP.

The government has also extended the deadlines for airlines in Cambodia to pay the 'Minimum Tax' to March 2021, and Cambodian financial institutions can benefit from the reduction of withholding tax for 2021 and 2022.

In addition to the impact caused by the pandemic, businesses are also reeling from the partial withdrawal of the '[Everything but Arms](#)' (EBA) status by the European Union (EU) in 2020. The [EBA status](#) gives 49 of the world's poorest nations duty-free access to EU markets. Cambodian-based exporters must now pay full tariffs for more

than 30 products, affecting one-fifth of the country's exports to the EU, totaling over US\$1 billion.

Financial support for private-sector workers

The government has extended financial aid for suspended private-sector workers in the textile, garment, tourism, and footwear sectors until the end of March 2021.

These workers must be registered with the Department of Labor and Vocational Training (DLVT) in order to receive support of up to US\$40 per month.

The employees will be entitled to the following subsidies.

- US\$15 for 7-10 days of employment suspension;
- US\$30 for 11-20 days of employment suspension; and
- US\$40 for 21 days to one month of employment suspension.

Employees who have been suspended from the textile and garment industries will continue to receive additional financial support of up to US\$30 per month in addition to the above-mentioned support, also until March 2021.

The subsidies are of the following amounts:

- US\$10 for 7-10 days of employment suspension;
- US\$20 for 11-20 days of employment suspension; and
- US\$30 for 21 days to one month of employment suspension.

Employers must first submit an application to the Ministry of Labor and Vocational Training (MLVT) if they intend to suspend their employees' contracts.

Tax exemptions for the tourism industry

The government has extended the monthly tax exemptions for hotels, guesthouses, travel agents, and restaurants located in the cities of Phnom Penh, Siem Reap, Sihanoukville, Kep, Kampot, Poi Pet, and Bavet until the end of March 2021.

Businesses in this sector will still need to submit their annual tax returns by March 31, 2021.

Businesses in the tourism industry will be exempt from paying the [2021 Patent Tax](#) — all registered taxpayers in the country are obligated to pay patent tax, which is

dependent on what the taxpayer is classified as under the self-assessment tax regime. Taxpayers who are exempt from paying the Patent Tax must still obtain the Patent Tax certificate for 2021 from the General Department of Taxation

Reduction in the withholding tax rate

For new loans, both from domestic and offshore sources — including those from double tax agreement (DTA) countries and non-DTA countries — held by Cambodian financial institutions, the withholding tax (WHT) rate will be reduced to five percent for 2021 and 10 percent for 2022. The normal rate will apply in 2023.

For existing loans, the WHT rate will be 10 percent for 2021.

Exemption of stamp duty

The government has extended the exemption of the four percent stamp duty on the transfer of immovable property in Cambodia, between January to December 2021. There are several criteria to be eligible for this incentive:

- The residential property must be valued at or less than US\$70,000 between January and December 2021;
- The transfer of ownership is done between February 2020 to December 2021; and
- Developers must prepare a purchase agreement based on the market price.

Support for the aviation sector

Airlines in Cambodia will continue to be exempt from paying the 'Minimum Tax' until March 2021. The minimum tax due is equal to one percent of total turnover, except value-added tax (VAT), and is irrespective of whether the taxpayer is in a profit or loss situation.

Aviation fees will also be suspended until March 2021.

Suspension of NSSF payments

Monthly payments to the National Security Fund (NSSF) will be further suspended until July 2021. The NSSF is a government body responsible for providing social security for workers in the private sector.