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Guide to Starting a Branch in Cambodia

Unless otherwise indicated, Cambodia branch stated in this guide refers to a foreign company's branch registered in Cambodia, under Cambodia Law on Commercial Enterprise 2005 and the related regulations.

Introduction

Cambodia is located in the Indochinese peninsula, between Vietnam, Laos and Thailand. By far, the economy of Cambodia is one of the fastest-growing economies in the Southern Asian region. Cambodia is one of the members of the WTO and ASEAN as well as has the Most-Favored Nation status. It enjoys Everything But Arms (EBA) and the Generalized System of Preferences (GSP) program preferences while trading with other countries. Besides, Cambodia provides one of Asia's lowest labour costs and friendly regulations for the investment. These and other attractive benefits make more and more foreign investors enter Cambodia market.

A branch may engage in profits making activities and receive the tax treatment equal with the limited company. However, it will not be treated as a separate legal entity. Liabilities incurred by a branch are liabilities of the parent company. All the decisions regarding corporate changes of the branch such as changes of branch manager, registered address will need a resolution from its parent company.

Meanwhile, to compare with a limited company, a branch is not eligible for a status of qualified investment project (hereinafter referred to as "QIP") to be approved by the Council for the Development of Cambodia to receive tax holidays and import duty exemptions. With that, it is required to be registered with tax department as a large taxpayer and pay patent tax as a large taxpayer (USD750-1250) while the limited company pays patent tax depending on its classification of taxpayer (medium or large) and its annual turnover.

Basically, for the purpose of registering a branch in Phnom Penh, Cambodia, you will need to provide the registration certificate, Articles of Association, directors' passport copies with the address of the parent company and the passport copies and the address of the authorized officer of the branch as well as the address of the registered office with office rental agreement, the principle business activity. The required documents and materials are detailed in Section 4 of this guide.

In general, the whole process for the registration of a branch in Cambodia takes around 14-16 weeks. It should however be noted that most of the procedures are subject to approval granted by the government departments and therefore some of the procedures may take longer than expected.

1. The Major Features of Cambodia Branch

(1) Name of the Branch

The name of the branch shall be the name of the parent company and must be ended with 'Branch'.

(2) Registered Address

The registered office address of the Cambodia branch must be located at Cambodia. Please note that it is mandatory to provide a Cambodia office address when handle the branch registration with the Ministry of Commerce (hereinafter referred to as "MOC"). Kaizen can provide an address in Phnom Penh to be used as the registered office for Cambodia branch for one year to comply with the Cambodia requirements as well as receive and forward letters and couriers on behalf of our client.

(3) Corporate Secretarial

Each branch registered in Cambodia has ongoing statutory requirements under Cambodia Law on Commercial Enterprise. Any breach of the Law may incur the penalties including fines and the risk of possible prosecution against the branch and its authorized officer. Kaizen may provide the corporate secretarial service for our client's Cambodia branch as well as assist with non-routine corporate secretarial services.

2. Taxation

A Cambodia branch is subject to the following taxes:

(1) Income Tax

Prepayment of tax on income (hereinafter referred to as "PTOI") is one of the monthly tax obligations, which taxpayers registered in Cambodia shall declare and pay together with other tax returns to the General Department of Taxation (hereinafter referred to as "GDT"). PTOI calculated at 1% of monthly turnover inclusive of all taxes, except Value Added Tax (hereinafter referred to as "VAT"). PTOI must be paid and filed by the 20th of the following month.

The liquidation of the TOI is the balance of tax payable after deduction of all tax credits and PTOI and shall be paid upon filing the annual TOI return to the GDT which shall be done by 31st March in the year following the tax year.

(2) VAT

VAT is charged at 10% on the value of the supply of most goods and services in Cambodia as well as on the goods importation. Exported goods and services rendered outside Cambodia are zero-rated. In addition, 0% VAT applies to certain charges in relation to international transport of people and goods and also applicable for goods and services supplied by supporting industries QIP/contractors to particular export industries.

VAT returns and payments are due to be filed and paid within 20 days of the following month.

(3) Withholding Tax

Pursuant to the Law, a resident taxpayer is required to withhold tax from the different type of payments of Cambodian source income to a resident entity. Kaizen has sorted out the type of the payment caught in the table below for your reference:

Grade	Type of Payment to a Resident	Tax Rate
1	Income received by a physical person from the performance of services including management, consulting, and similar services, royalties for intangibles and interest in minerals, and interest paid by a resident taxpayer carrying on business other than domestic banks and saving institutions to a resident taxpayer	15%
2	Rental income on movable or immovable property	10%
3	Interest paid by a domestic bank on fixed term deposits	6%
4	Interest paid by a domestic bank on non-fixed term deposits	4%

Any resident taxpayer carrying on business and who makes such payments as the interest, royalties, rent, and other income connected with the use of property, compensation for management or technical services, dividends to a non-resident taxpayer shall withhold and pay as tax, an amount equal to 14 % of the amount paid.

(4) Tax on Salary

All Cambodian individual residents are subject to the tax on salary (hereinafter referred to as “TOS”) on Cambodian and foreign sourced salary income at a progressive rate from 5% to 20% per month, while non-residents are subject to a flat rate of 20% on salary received from Cambodian source salary income only.

Salary is defined as remuneration, wages, bonuses, overtime, compensation, direct benefit or indirect benefit or advance payment provided by the employer. The tax base is reduced by KHR75,000 per month for every dependent child and nonworking spouse of the resident taxpayer. For the more detailed information on TOS for residents please refer to the table below:

Grade	Monthly Taxable Income (KHR)	Tax Rate
1	Less than 1,200,000	0%
2	More than 1,200,000 and less than 2,000,000	5%
3	More than 2,000,000 and less than 8,500,000	10%
4	More than 8,500,000 and less than 12,500,000	15%
5	Over 12,500,000	20%

The TOS is due to be filed and paid to the GDT by the 20th day of the following month.

(5) Fringe Benefit Tax

A fringe benefit tax (hereinafter referred to as “FBT”) on private use of motor vehicles by employer, housing, education assistance (except employment related training), low interest loans, and free, subsidized or discounted goods and services is levied on employers according to the taxable value of the fringe benefits provided to their employees. The tax rate of FBT is 20% and shall be paid on a monthly basis.

(6) Patent Tax

Cambodia branch shall pay patent tax (also known as business registration tax) and renew its Patent Tax Certificate by the end of March every year. The amount of patent tax depends on the form of the business, as well as the type of business activity and the level of turnover. Pursuant to the Prakas No. 1821, the patent tax payments are set and divided into the followings:

- (a) KHR400,000 (around USD100) for small taxpayers;
- (b) KHR1,200,000 (around USD300) for medium taxpayers;

- (c) KHR3,000,000 (around USD750) where the company's annual turnover is between KHR4,000 million and KHR10,000 million; KHR5,000,000(around USD1,250) where the company's annual turnover is over KHR10,000 million for large taxpayers.

Please be noted that in accordance with the relevant regulations of GDT, the branch in Cambodia shall pay the patent tax of USD750-1,250 since it is only entitled to be registered with GDT as a large taxpayer.

3. Cambodia Branch Registration Procedures and Timeframe

Under normal circumstances, if the name and the business scope do not need an extra license or permit, the whole process for branch registration takes 14-16 weeks to complete.

(1) Choose a Branch Name

Kaizen can help our client to produce the equivalent name of the branch in Khmer language, perform a name availability search and reserve the name.

(2) Prepare and File Certificate of Incorporation

To register your branch in Cambodia, the incorporation documents and registration forms with the application fee should be filed with the MOC through the MOC's online system and the MOC will issue the Certificate of Incorporation accordingly.

(3) Open corporate bank account

Once the branch duly incorporated in Cambodia, the incorporation documents should be submitted to the bank for bank account opening. Please consider, that authorized signatory(ies) is/are required to appear at the bank personally to sign the documents and stamp the relevant application forms & registration documents. Kaizen can provide the assistance to open corporate bank account with a leading commercial bank in Cambodia, including preparation of necessary documents required by the bank and visiting the bank with client.

(4) Tax registration with the GDT

Once the MOC registration and bank account opening completed successfully, the Cambodia branch shall be further registered with the GDT to apply for Patent Tax Certificate and VAT Certificate.

The tax registration process shall be initiated within 15 working days following the date the branch is registered with the MOC. If the branch does not register with the GDT in a timely manner, it will be a subject to a penalty of USD500. Please also

be noted, that the GDT will require the new authorized officer physically present at the GDT for photo - taking and fingerprint - scanning.

4. Required Documents and Materials

To incorporate in Cambodia, it is required to provide the following materials:

- (1) English name of Cambodia branch;
- (2) A good quality colour scanned copy of the registration certificate and Articles of Association of the parent company. The documents above shall be translated into English and certified by a lawyer or notary public in the incorporation country;
- (3) Letter of appointment from the parent company for the authorized officer of Cambodia branch;
- (4) The authorization letter from the parent company for legally using its name and logo etc.;
- (5) Six good quality colour scanned copy of the passport in respect of each director of the parent company, requires the signatures of directors on the lower right corner of each copy and their residence address;
- (6) Six good quality colour scanned copies of the passport in respect of the authorized officer of the branch, requires his/her signature on the lower right corner of each copy and the residence address;
- (7) Six recently - taken photographs with white background without glasses and ears are clearly shown (4x6cm) and signing on the back of authorized officer;
- (8) Declaration of non-civil and non-guilty in respect of the authorized officer;
- (9) The principal business activity in Cambodia.

5. Documents to be Returned

After all incorporation procedures are completed, the following documents should be returned to you for your retention and as proof that the branch is duly registered:

- (1) Certificate of Incorporation;
- (2) Letter of registration confirmation from MOC;
- (3) Company Seal;
- (4) Office Lease Agreement;
- (5) Bank Account Opening Certificate;
- (6) The Patent Tax Certificate;
- (7) VAT Certificate.

6. Other Optional Registrations and Annual Compliance Requirements

(1) Labour Registration and National Social Security Fund Registration

Once incorporated, the same with a limited company and a RO, each Cambodia branch with at least one employee is required to handle the labour registration with the Ministry of Labour and Vocational Training (hereinafter referred to as “MLVT”). Where the branch intends to employ any expatriate staff, the employee quota approval shall be applied on an annual basis. Moreover, the branch will be also required to handle a work permit for the foreign staff, which shall be renewed annually.

In the interim, the registered branch shall apply for the registration with National Social Security Fund (hereinafter referred to as “NSFF”) as well as submit monthly reports and make the monthly NSFF contribution payment.

Kaizen may provide the entire assistance on following matters. Please contact our professionals for further information.

(2) Annual Compliance

After a branch officially registered in Cambodia, it is required to maintain accounting records in accordance with Cambodian Accounting Standards as well as file & pay monthly tax returns. In addition to monthly tax returns, Cambodia branch shall file the annual TOI return to the GDT, pay patent tax and renew its Patent Tax Certificate on the annual basis. Please refer to Section 2 of this guide to be more familiar with the tax system in Cambodia.

Besides, to maintain an active status and good standing, the branch registered in Cambodia is required to file the Annual Declaration of Commercial Enterprise (hereinafter referred to as “ADCE”) with MOC on the annual basis. Failure to file the ADCE may result in penalties.

Kaizen suggests consulting with professional advisors before the proposals coming into effect. We can assist you with branch registration, bank opening and other consulting services in Cambodia. Please reach out to Kaizen consultants so that provide you with detailed information.



If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:

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