

Cambodia's New Investment Law Provides More Incentives To The Existing and New Industries

With its ambitious plan under the Industrial Development Policy 2015-2025 (“**IDP**”) to boost its economic growth and transition from a low-income to a high-income nation, Cambodia has adopted a new Law on Investment (“**LoI**”), obsoleting the Law on Investment 1994 and its amendment in 2003. The new LoI aims to maintain existing industries in the country while attracting more new industries such as innovation, scientific and technological industries to the Kingdom by offering more incentives and benefits to the investors. This new LoI is also considered as a major instrument in diversifying the investment in Cambodia and is believed to help boost the economic recovery in the post-pandemic period.

Similar to the old LoI, for the investment project to be entitled to benefits, the applicants shall apply to the Council for the Development of Cambodia (“**CDC**”) or Provincial or Municipal Investment Sub-committee (“**PMIS**”) for Qualified Investment Project status (“**QIP**”). QIP is granted should the investment category fall under the incentive scope, not the negative list. If the investors wish to obtain an investment guarantee only, the applicants shall apply to the CDC or PMIS for the Investment Guarantee for the project.

Here are a few key points which the investors should be aware of from the new LoI:

I. Registration and Approval

The approval process timeframe for the investment project application has been reduced to twenty (20) working days under the new LoI. Further, the investors can either file their investment project application via CDC or PMIS or digital registration platform.

In the previous law, the investors would receive two certificates during the approval process, namely Certificate of Conditional Registration and Certificate of Final Registration. In contrast, under the new LoI, the investors will only receive a registration certificate and followed by pertinent licensing/certificates from the relevant ministries/authorities.

II. Additional New Industries to be Entitled to the Incentives under QIP

Under the new LoI, the additional new industries to be entitled to the incentives under QIP include:

- Advanced innovative, research, and development technology industry;
- High value-added, innovative and most competitive industry or manufacturing factory;
- Global and regional supply chain industry;
- Supporting industries related to agricultural, tourism, manufacturing, regional and global supply chain, and supply chain connectivity sector;

- Electricity and electronic industry;
- Spare part, assembly, and installation industry;
- Mechanic and machinery industry;
- Food processing industry for local supply or export;
- Prioritized SMEs and SME development; and industrial scientific and innovation park;
- Tourism industry and activities related to tourism;
- Digital industry;
- Educational, vocational training and productivity booster investment;
- Health investment;
- Logistic investment;
- Environment protection, biodiversity development and circular economy investment;
- Green energy, climate change reduction and adaption technology investment; and
- Other sectors and investment activity that does not specify under this law but the Royal Government of Cambodia perceive its potential for social and economic development.

For clarification, the aforementioned sectors which do not fall under the negative list shall be entitled to the incentives following the approval from the CDC.

III. Incentive

The investors under QIP can opt for one of the two incentive options – Tax on Income Exemption or Special Depreciation Scheme enshrined under the Tax Law. To attract more investors to Cambodia, the Royal Government of Cambodia has provided better incentives as following:

	<u>Option 1- Tax on Income Exemption</u>	<u>Option 2 - Special Depreciation Scheme</u>
Tax Incentive		
A. Main Incentive	<ul style="list-style-type: none"> - Under this new Lol, the Tax on Income Exemption is between 03 (three) to 09 (nine) years starting from the first year that the QIP project earns the revenue. - After the incentive of the above period completes, the investors are entitled to pay annual income tax at a discount with the exponential growth rate up to 06 (six) years as following: <ul style="list-style-type: none"> - Shall pay 25% (twenty-five percent) of overall annual income tax for the first 02 (two) years; - Shall pay 50% (fifty percent) of the overall annual income tax for the following 02 (two) years; 	<p>Under the Special Depreciation Scheme, the investors are entitled to special depreciation rate under the Tax Law. The investors can depreciate up to 200% (two hundred percent) of actual expense up to 09 (nine) years. Investment activity and sector; the actual expense; and the depreciation period shall be determined by the Law on National Budget and/or Sub-decree.</p>

	- Shall pay 75% (seventy-five percent) of overall annual income tax for the last 02 (two) years.	
B. Pre-payment Tax	The investors shall be exempt from paying pre-payment tax during Tax on Income exemption.	The investors shall be exempt from paying pre-payment tax for a certain period based on the investment activity and sector; the actual expense; and the exemption period shall be determined by the Law on National Budget and/or Sub-decree.
C. Minimum Tax	The investors shall be exempt from minimum tax payment with the condition of having independent audited report.	
D. Additional Incentive	<ol style="list-style-type: none"> 1. Being exempt from value-added tax payment for raw materials from a domestic supplier for QIP; 2. Being entitled to deduct the expense at the 150% (one hundred and fifty percent) rate for research, human resource development, transportation, canteen, nursery for Cambodian employees etc.; and 3. Being exempt from tax on income payment for the project expansion. The detail shall be determined by the sub-decree. 	
E. Special Incentive	Apply to the sector or specific investment activity which is highly potential for national economic development as specified in the Law on the National Budget.	
F. Import Tax and Duties Exemption	Custom duties, special tax and VAT for construction materials and accessory; production equipment; and production inputs importation shall be borne by state. However, for the domestic supply purpose QIP, incentive for production input shall be determined by the Law on the National Budget.	

IV. QIP Transfer

QIP project owners can transfer the QIP to any third parties under the sale and purchase or merger of the investment project. The investment incentives, guarantees and other relevant obligations shall remain for the beneficiary investors should the sale and purchase or merger be carried out in accordance with the applicable laws and regulations of the Kingdom of Cambodia, and as required by the in-charge authorities.

Our legal team is looking forward to the upcoming Law on the National Budget and Sub-decree related to the investment scheme to provide further update on this.

Should any additional information be required regarding this legal alert or if you have any further inquiry, please contact our team at info@anlor.legal or reach out to our professionals below:



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