



# **Diploma in Cambodia Tax**

## **Pilot Exam**

## Question 1

Anna, a German national, moved to Cambodia in January 2008 with her Canadian husband Bob and their two children to take up a position as General Manager of “Das Elegante”, a new hotel in Phnom Penh. For the first two months, Anna is paid from Germany, where her salary was taxed at the rate of 10% (she has documentation to prove that this tax was paid to the German tax authorities). However, from March 2008 onwards, her salary was paid from Cambodia. Bob also finds employment with the Cambodian office of “CanadiCare”, a Canadian Non-Governmental Organisation, they move into an apartment, and the children are enrolled in a respected international primary school.

In February 2008, Anna’s remuneration comprised the following payments and benefits:

Component	Payment (US\$)
- Salary.....	7,500
- Bonus for successful opening of business.....	500
- Housing Allowance.....	1,000
- Medical insurance (provided to management only).....	800
- Pension contribution.....	750
- The children’s school fees.....	1,000

Anna is also reimbursed US\$1,300 in respect of expenses related to a three day business trip to Singapore as follows:

- Hotel.....	500
- Air Travel.....	600
- Out of Pocket Expenses.....	200

Anna also has the exclusive use of a company car and driver, which the hotel rents at a monthly cost of US\$2,500.

### Required:

- i. **On what basis is Anna’s salary taxable: resident or non-resident? Give your reasons. (4 marks)**
- ii. **Discuss the legal basis under which a person such as Bob may benefit from an exemption to TOS. (4 marks)**
- iii. **Explain the circumstances under which pension plan contributions may be taxable. Is Anna liable? (4 marks)**
- iv. **Compute both the Tax on Salary and Fringe Benefit Tax imposts with respect to Anna’s February remuneration, taking into account any potential deductions. (13 marks)**

*(please note, there are three different methods which may be employed to calculate TOS, students may use any one of these.)*

**(25 marks)**

## Question 2

a) ABC Garment Manufacturing operated in January 2003. For the year ending 31 December 2008, the company reported a net accounting profit of US\$200,000 before deduction for Prepayment of Tax on Profit. This profit was arrived at after charging / (crediting) the following items:

	US\$ (000)
• Interest expenses(note 1)	50
• Accrual Bonus which will be paid in April 2009	12
• Accounting Depreciation (note 2)	10
• Charitable contribution and donation (note 3)	10
• Re-assessment of tax for the year 2007	20
• Penalty and interest for late payment of taxes	4
• Unclaimed VAT input	3
• Entertainment expense	2
• Unrealized gain on exchange	(6)
• Unrealized loss on exchange	7
• Subsidized /granted income (note 4)	(500)
• Accrued pension fund (note 5)	10
• Supply of goods free of charge	5

### Notes:

1. The interest income during the year was US\$500 and the Company brought forward interest of US\$800.
2. The depreciation of US\$10,000 is based on the Company depreciation rate. The Company has also calculated the depreciation of the asset based on the depreciation rate as stated in the Cambodian law which is US\$8,000.
3. US\$3,000 was contributed to the Cambodian Red Cross, a charitable organisation. A further US\$7,000 was donated to a local pagoda.
4. On 30 June 2008 the company was granted US\$500,000 by a foreign government agency to support its operations, there being no repayment requirement.
5. For the year ended 31 December 2008 the Company accrued a pension liability of US\$10,000 for its staff which it paid in full into a pension fund. This consisted of US\$7,000 contributed from the Company (equal to 10% of employees' salary) and US\$3,000 contributed from employee's salaries before calculation of Tax on Salary. The pension fund will be paid when any member of staff leaves the Company.

### Additional information:

As of 31 December 2007, the Company had made a provision for doubtful debts of US\$1,000 (per the 2007 Tax on Profit Return). By 31 December 2008 the provision for doubtful debt had grown to US\$1,700.

The Company paid the prepayment of tax on Profit during the year of US\$8,000.

### Required:

**i. Compute ABC's Profit tax for the year 2008. Please indicate with "0" the expenses for which no adjustment is required (i.e. they are tax deductible). All working should be shown. (15 marks)**

- b. Furthermore, the Company received rental income from another real regime taxpayer and accordingly withheld US\$6,000 in withholding tax. In addition, the Company brought forward a loss of US\$10,000 for the year 2006 and US\$10,000 for the year 2007.

**Required:**

- i. Assuming the transactions listed in part (a) are the same, compute ABC's Profit tax for the year 2008. (6 marks)
- ii. State the conditions under which a Company's loss can be carried forward. Explain how loss will be utilized and when a loss must be forfeited. (4 marks)
- iii. Define what is meant by a Permanent Establishment ("PE"). Give 3 examples of PEs. (5 marks)

**(30 marks)**

### Question 3

David Electrics Company (DEC) is a Cambodia incorporated and tax resident in Cambodia. It carries on the trade of buying and selling electrical equipment and VAT registered as a taxpayer trader.

For its financial year ended 31 December 2010, DEC reported as a net accounting profit of USD 200,000 after charging depreciation of USD 5,000, the only item reflected its accounts that was not tax deductible.

In December 2010, DEC:

- Sold electrical equipment amounting to USD 2,000,000 (before VAT) of which 25% were exported directly to Laos.
- Incurred VAT of USD 120,500 on purchases of its trading stock.
- In addition, DEC acquired the following items of plant and machinery, all from VAT registered traders except for the photocopier, which was purchased from a non-VAT registered trader:

Description	Cost(inclusive of VAT) USD
Computers	5,040
Photocopier	2,100
Machinery	10,080
Conference table	1,260

**Required:**

- a) Compute the taxable profit for David Electrics Company for the year ended 2010 assuming that the tax written down values of all its fixed assets as at 31 December 2009 were nil. (5 marks)**
- b) Compute the amount of input and output VAT reported by David Electrics Company in its VAT return for December 2010 together with the amount of net VAT payable/refundable for that month. (7 marks)**
- c) State the differences in treatment between a zero-rated supply and an exempt supply. Give an example of each type of supply. (3 marks)**

**(15 marks)**

**Question 4**

**a) Explain the fundamental differences between direct and indirect taxation. (4 marks)**

b) ABC Private Limited, a company incorporated in Cambodia closes its accounts on 31 December each year. On 1 January 2010, it borrowed USD 1,000, 000 from HB BANK, a Singapore incorporated bank. Interest, at the rate of 6% per annum, is payable on this loan at the end of each calendar quarter. You are told that the adjusted profit, after taking into account an adjustment of deductible and non deductible expenses is USD 7,000 and the interest income during the period is USD 5,000.

**Required: For the financial year ended 31 December 2010:**

- i. Calculate the limitation of deductible interest expense. (3 marks)**
- ii. State, giving reasons, whether or not ABC Private Limited is obliged to deduct withholding tax from the payment made in (i) above, and if so, t what rate. (3 marks)**
- iii. Assuming that withholding tax is deductible state the consequences for ABC Private Limited of not deducting the tax due from the amount of interest paid to HB BANK. (2 marks)**
- iv. State the due date for payment of any withholding tax and the penalties for not making due payment of the tax deducted to the General Department of Taxation. (3 marks)**

**(15 marks)**

### **Question 5**

- (a) Myser Lee Ltd, a Cambodian company registered under the Real Regime, receives a notification of tax reassessment letter date 30 Mar 2009 from the General Department of Taxation stating that it has underpaid WHT for the month of January 2009. According to the tax reassessment letter, Myser Lee was due to pay WHT of US\$20,000, but paid only US\$19,000. The letter demands that Myser Lee pay the remaining tax due within 30 days after it is received.

#### **Required:**

- i. **Explain when a taxpayer would be subjected to a penalty of 10%, 25% or 40% by the Cambodian tax authorities? (7 marks)**
- ii. **Calculate the penalty and interest and penalties that will apply to Myser Lee Ltd. assuming that the remaining tax is paid ten days after receiving the letter. (8 marks)**

**(15 marks)**