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Qualified Investment Projects in Cambodia

Over the past decade, investors have shown a considerable amount of interest in Cambodia. Last year, foreign direct investment in Cambodia was estimated at USD 1.8 billion, or 10 percent of GDP, according to the World Bank. This interest has largely been spurred on by the government, which offers an investment scheme that has some of the most attractive incentives in the region.

The incentives include a tax holiday on profits for up to nine years if an investment project is recognized as a Qualified Invest Project (QIP) by the Council for the Development of Cambodia. Once an investment project is recognized as a QIP, it can either elect to receive an exemption on profit taxes or to use a special depreciation allowance. QIPs can also receive a raft of other benefits, depending on various factors.

Exemption on Profit Taxes

The normal corporate tax rate in Cambodia is 20 percent. QIPs that elect to receive an exemption on profit taxes enjoy a tax holiday for up to nine years. The tax holiday is comprised of a trigger period, which is followed by a three-year period, and then a priority period.

Trigger period. The trigger period begins on the date the final registration certificate is issued, and it ends on the last day of the fiscal year immediately preceding the fiscal year that the QIP derives a profit, or the third fiscal year after the fiscal year in which the QIP generates any income, whichever is earlier.

Three-year period. The three-year period commences from the fiscal year that immediately follows the trigger period.

Priority period. The priority period starts from the fiscal year that immediately follows the third year of the three-year period, and lasts from zero to three years, depending on the type of project and the amount of investment capital. The priority period is determined by a Royal Decree, which is issued by the government.

In Cambodia, most businesses are also subject to a 1 percent tax on gross revenues each month, but QIPs are exempt from this tax during the tax-holiday period.

These tax exemptions only apply to revenue and profits generated from the QIP itself, and may not be applied to any income generated from non-QIP activities. In addition, the tax break is not applicable to withholding taxes, taxes on salaries, value added tax, or any other taxes specified by Cambodian law.

Special Depreciation Allowance

QIPs that elect to receive a special depreciation allowance are granted a generous tax break on importing large amounts of machinery or other capital goods. The QIP is entitled to a special depreciation allowance of 40 percent of the value of new or used tangible property that is used in the QIP's production or processing.

The special depreciation allowance can be applied in the first year of the purchase of tangible property, or in the first year that property is used in the QIP.

Other Benefits

QIPs receive exemptions on customs duties in the importation of production equipment, construction materials, and production inputs that will be used in the production of products for export.

In addition, QIPs receive preferred treatment when hiring foreign employees. Cambodian law normally requires employers to hire at least ten local employees for every foreigner they hire (although waivers are routinely granted). QIPs are expressly permitted by law to hire as many foreigners as necessary to work as managers, technicians, and skilled workers, provided that each foreign employee is supported by documentation proving that their qualifications and expertise are required for the job.

QIPs are also entitled to enter into land leases for an unlimited term, instead of the normal 50-year maximum term, and they are permitted to include foreign arbitration clauses in their contracts with the Cambodian government.

Special Economic Zones

QIPs can avoid having to pay VAT on imported inputs if their project is located inside a special economic zone (SEZ). SEZs were introduced by the government in 2005. According to the government's official figures, there were 14 SEZs operating in Cambodia as of September 2015. The SEZ in Phnom Penh has 83 investors—the highest in the country—followed by the SEZ in Sihanoukville, which has 74 investors.

The government's main purposes in establishing the SEZ program are to attract more investors and promote diversification of the industrial base away from the garment sector, which heavily dominates Cambodia's economy. Most of the industrial base that uses SEZs is comprised of manufacturers of electronics and vehicle spare parts, and companies in the food, beverage, and household furnishing sectors.

To establish an SEZ, a zone developer must have at least 50 hectares of land and provide an anti-flooding system, a clean water system, electricity, telecommunications, a residential center for employees and employers, an adequate road system, public parks, environmental protection measures, and other related infrastructure. An SEZ must be approved by the Council for the Development of Cambodia.

Only a zone investor of an approved QIP is eligible to operate inside an SEZ. Both the zone developer and the zone investors are entitled to an exemption on profit taxes for up to nine years, and they can also receive unlimited exemption on VAT on their imports and zero-rated VAT on their turnover. Zone investors, however, need to pay tax on any imported inputs if they are used to produce products that are sold domestically.

Cambodia offers an enticing business environment for investors. With the country's robust growth and the government's aspiration to increase foreign direct investment through attractive investment schemes, Cambodia is rife with opportunity. As long as a number of development challenges are adequately addressed, investment and, in particular, QIPs hold a lot of potential in Cambodia.