Excise Taxation in Cambodia

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7th Meeting of Asia Tax Forum

20-22 October 2010
Siem Reap, Kingdom of Cambodia
Outline

1- Purpose of Inventing of Excise Tax
2- Tax on Domestic Goods
3- Specific Tax on Certain Merchandises and Services
4- Public Lighting Tax
5- Tax Revenue
6- Issues on Excise Tax Base
7- Strengthen Specific Tax Administration
8- Specific Tax Reform
Purpose of Inventing Excise Tax

Many governments originally invented Excise Tax for the following reasons:

**protecting people**
- from harming their health by abusing substances such as **tobacco** and **alcohol**,  
- from harming themselves and others indirectly and **morally** by engaging in activities such as **gambling** and **prostitution**,  
- from harming people around them and the general environment both from overuse of the above-mentioned substances, and including curbing activities contributing to **pollution**

**punishing people** for abusing **tobacco** and **alcohol**

**providing monies needed**
- for the extra healthcare and other public expenditures which will be needed as a direct or indirect result of excisable activities, such as **lung cancer** from smoking or **road accidents** resulting from **drunk driving**  
- for other public expenditures.
Nature of Tax

Levied on locally-produced goods: cigarettes, tobacco, alcoholic drinks, soft drinks, ice cream and lotus seeds. The tax is not levied on similar goods imported into the country. Tobacco is subject to tax when it is sold by tobacco traders, but this tax may, in principle, be credited against the excise tax liability of cigarette manufacturing establishments. The tax is calculated on the basis of prices established by the Ministry of Finance.
TAX ON DOMESTIC GOODS (1985)

Rates of Tax

- Cigarettes, tobacco and alcoholic beverages: 50 %
- Soft drinks and ice cream: 30 %
- Lotus seeds: 20 %
SPECIFIC TAX ON CERTAIN MERCHANDISES AND SERVICES (TSMS) (1994)

Nature of Tax

Specific Tax is a form of excise tax that applies to a number of imported or domestic products, and the supply of certain services. This Tax has come to replace the Tax on Domestic Goods since 1994.
Authorities Collecting Specific Tax

Two authorities under the Ministry of Economy & Finance:

- General Department of Taxation (GDT):
  domestic products and services.

- General Department of Customs and Excise (GDCE):
  Imported Products.
## SPECIFIC TAX ON CERTAIN MERCHANDISES AND SERVICES (TSMS)

### Rates of tax

<table>
<thead>
<tr>
<th>Types of Goods and Services Subject to Excise Tax</th>
<th>Tax Rate</th>
<th>Collect by</th>
</tr>
</thead>
<tbody>
<tr>
<td>All kinds of beers</td>
<td>25%</td>
<td>GDT &amp; GDCE</td>
</tr>
<tr>
<td>Wines &amp; all kinds of other spirits including aromatic substances fermented beverages, certain beverages and mineral water including fruit and vegetable juices</td>
<td>10%</td>
<td>GDT &amp; GDCE</td>
</tr>
<tr>
<td>All kinds of tobacco</td>
<td>10%</td>
<td>GDT &amp; GDCE</td>
</tr>
<tr>
<td>Automobiles and spare parts</td>
<td>15, 25 &amp; 45%</td>
<td>GDCE</td>
</tr>
<tr>
<td>Petroleum, diesel and gasoline</td>
<td>10, 25 &amp; 33%</td>
<td>GDCE</td>
</tr>
<tr>
<td>Air conditioners, cosmetics and camera equipment. etc.</td>
<td>10%</td>
<td>GDCE</td>
</tr>
<tr>
<td>Entertainment services such as massage, karaoke, snooker and discotheque</td>
<td>10%</td>
<td>GTD</td>
</tr>
<tr>
<td>Air-tickets</td>
<td>10%</td>
<td>GTD</td>
</tr>
<tr>
<td>Telephone services</td>
<td>3%</td>
<td>GTD</td>
</tr>
</tbody>
</table>
SPECIFIC TAX ON CERTAIN MERCHANDISES AND SERVICES (TSMS)

**Tax Base**

**Imported Products:**

CIF + Import Duty

**Domestic Products:**

65% of invoice price issued to customers

**Services:**

100% of invoice price issued to customers
SPECIFIC TAX ON CERTAIN MERCHANDISES AND SERVICES (TSMS)

Tax Payment and Collection

• For domestic sales, taxpayers must file the Tax Return and make payments on a monthly basis, not later than the 15th day of the succeeding month.

• For imports, the Tax is payable to Customs at the time of importation.
PUBLIC LIGHTING TAX (PLT)

**Nature of Tax**

Public Lighting Tax is considered as another form of Excise Tax. This Tax is levied on every transaction of domestic selling of Alcoholic Drinks and Tobacco Products. This Tax revenue is for Public Lighting for Local Government.

**Rate of Tax**

3% on the Value on Invoice including TSMS.
Specific Tax Revenue Collections

(in Million Riels or in Millions $US) 1$US=4.000 Riels
GDT Taxes’ Contribution

2006

- VAT: 42%
- Profit Tax: 35%
- Specific Tax: 11%
- PLT: 4%
- Salary Tax: 7%
- Other Taxes: 1%

2010

- VAT: 38%
- Profit Tax: 36%
- Specific Tax: 14%
- PLT: 4%
- Salary Tax: 7%
- Other Taxes: 1%
SPECIFIC TAX ON CERTAIN MERCHANDISES AND SERVICES (TSMS)

Administration

- Stamp Tax is affixed on each box of all imported and local Cigarette
- All importers and local manufacturers shall register with General Department of Taxation.
Issues on Specific Tax Base

Tax Base:

- Until end of 1996: “Sale Price Recorded on Invoice”:
  
  Taxpayers complaint on the heavy burden of such base.

- From earlier of 1997 until 1st quarter of 2007: “Ex-Factory Sale Price Recorded on Invoice”:
  
  There were a lot of manipulation on this base to reduce the tax to be paid. Some taxpayers tried to use “Cost of Production” as tax base.

- From 2nd quarter of 2007 until Present: “Ex-Factory Sale Price Recorded on Invoice” determined as 65% of the Invoice Price to Customers.
Issues on Specific Tax Base

Tax Base:

● Since May 2007, The GDT Specific Tax Base definition (65% of the Invoice Price) has contributed a significant increase of Specific Tax revenue on local products (25%).

● However, “Ex-Factory Sale Price Recorded on Invoice” is still an ad valorem tax base that seems to be fair among all products but is difficult to administer.

● The GDCE’s CIF Value for same kind of imported products lower than “Ex-Factory Sale Price Recorded on Invoice” for domestic products leads to discourage domestic products.
Strengthen Specific Tax Administration

- For the purposes of increasing tax revenue, keeping administration simply, reduce tax evasions/avoidance, some measures are to be considered:

  - **Tax Rate:**
    - Increasing Tax Rate on Beer from 25% to 30%;
    - Increasing Tax Rate on other Alcoholic Beverages from 10% to 30%.

  - **Tax Base:**
    - Increasing Tax Base from 65% to 85% (and then to 100% of Invoice Price).

- Strengthening tax compliance on alcohol beverage, and cigarette factories by increasing taxpayer services and enforcement measures.

- Enforcing Stamp Tax (Banderoles) to all imported and domestic products subject to Specific Tax.
Tax Base Reform to be Considered

Considering the change from Ad Valorem tax (rate) to Specific Tax (volume) or mix, but the change can cause a number of pros and cons:

- Easy to administer;
- Lower the administration cost;
- Increasing Tax Revenue;
- Create unfair treatment to cheaper products;
- Cheap products manufacturers complain;
- Lead to have tax evasion etc..
Thank You