

Opening Address
by
Deputy Prime Minister KEAT CHHON, MP
Minister of Economy and Finance
At the “Seventh Meeting of the Asia Tax Forum”
Siem Reap-Angkor, October 21, 2010

-H.E. Chou Vichith, Acting Secretary General of the Ministry of Economy and Finance.

-H.E. Sim Eang, Delegate of the Royal Government in Charge of General Department of Taxation.

-Mr. Daniel Witt, President of the International Tax and Investment Center (ITIC).

-Mr. Rob Preece, Association Director, Center for Customs and Excise Studies (CCES), University of Canberra.

- Excellency Ladies and gentlemen!

First of all, I would like to welcome you all to Siem Reap-Angkor, ancient capital of the Khmer Empire. It is my great pleasure and honor to address the opening of the Seventh Meeting of the Asia Tax Forum, jointly organized by the Ministry of Economy and Finance of Cambodia and the International Tax and Investment Center (ITIC) in collaboration with two regional partners, the Philippine Institute of Public Finance (PFIP) and the Center for Excise and Custom Study (CCES), University of Canberra.

This forum is timely organized amidst the post-crisis environment, which affected many economies around the world. During the crisis, many countries responded by introducing fiscal stimuli, which taxation is one of the key components. We witness the recovery of global economy, though remain fragile, it prompts country around the world to rationalize its stimulus package, especially to finance the budget deficit. In this regards, taxation, on one hand, is a critical tool to mobilized revenue. On the other hand, the system of taxation needs to be designed in a way that would not kill economic growth.

On behalf of the Ministry of Economy and Finance and of my own behalf, I would like to highly appreciate the forum, which is attended by 90 participants from about 20 countries and bring together senior government officials in Tax Policy and Administration from Asia-Pacific region including custom officials, tax academic experts, private sectors and representative from international organization to exchange experience, lessons and international best practices. This forum allows us to gain insight on challenging issues and present available options on the tax policy designing to strengthen fiscal administration, as well as revenue mobilization.

Excellency, Ladies and Gentlemen!

From the second half of 2008 and during 2009 the Royal Government of Cambodia (RGC) under the leadership of **Samdech Akka Moha Sena Padei Techo HUN SEN**, Prime Minister of the Kingdom of Cambodia has successfully guided the economy, like other Asian economies, through the most difficult period of the global crisis. Cambodia has managed to maintain the stability of the financial sector as well as macro-economic and social stability, especially the normalcy of the people's livelihoods. Although the Gross Domestic Product experienced a very small growth of 0.1% in 2009, we succeeded to reduce poverty by over 1% per year as scheduled thanks to the agriculture sector, on which the majority of our population depends, scored the robust growth of 5.5%. Economic growth in 2010 is estimated to be 5.5%. Next year the economy is expected to grow 6%.

In area of revenue collection, the Royal Government faced a daunting challenge due to revenue drip, steaming from slowdown of economic activities. In addition to tax incentive amount to 5%-6% of GDP, responding to crisis, the government has conceded financing equivalent to about US\$ 20 millions through two years of continued income tax exemption for investment firms in garments for exports since 2005. In addition to this incentive, the Royal Government has reduced the custom tariff from 35% to 7% for 6 tariff line and 15% to 0% for 12 tariff lines to promote agriculture sector. Furthermore, 634 tariff lines were also reduced, of which 252 tariff lines to 0% rate, to promote development of Small and Medium enterprises.

However, it should be noted that tax revenue to GDP remains low in Cambodia compare to the countries of same level of development. It is very challenging for us to strengthen our tax system, though we have introduced Cambodian Public Financial Management Reform Program to secure increasing tax revenue 0.5% of GDP per year by gaining from further reform in tax policy and tax administration.

Excellency, Ladies and Gentlemen!

According to the agenda, the forum significantly contributes to our understanding of different taxation, reform and effort around the region. In applying the best practice in any tax system, there are five desirable characteristics such as economic efficiency, administrative simplicity, flexibility, political responsibility, and fairness.

The topics for discussion in this Forum reflect the interests and concerns of all countries. My own interest covers some of them as follows:

The first topic is the "Design and Administration of an efficient excise tax system ". Excise tax is applied on luxury products or services for –medium-rich people (not necessary good for poor people) such as cars, petroleum, cigarettes, beer, wine, and may some of services. Many countries have excise taxes and it contribute substantial revenue. In addition, the excise tax system can help in furthering the health needs and environmental concerns of the people in the region. In making this use in setting excise taxes, we have several objective such as the method of taxation is simple and certain – tax base is well known and understood by taxpayer and tax official; smaller number of taxpayers (factories and imported firms), low cost of administration and compliance; and least politically damaging as a small minority pay the bulk of the tax. The excise tax rate can be ad valorem rate or specific rate. The excise tax base can be Ex-factory price or invoice price.

The second topic is the "Design and execution of an upstream taxation regime for natural resources". Fiscal arrangement with respect to natural resources need to take into account that the government is the landowner or the owner of mineral rights, and investor spends substantial money and facing high risk in this sector. If valuable resources are going to be extracted, the government will receive revenues from them. The revenue can be in the form of taxations such as profit tax, salary tax, withholding tax, VAT, import duties; and revenue from non-taxes such as royalties, lease bonuses, resource rent tax or government equity ... Such Revenues from natural resources play a key role in promoting people's living standard and for socio-economic development, especially to ensure that the country receive blessing from such resources.

The third topic is the "Reflection on GST/VAT as the central measure in tax reform". Over the last few decades, there are significant reform of tax structure by widespread introduction of value added tax (VAT) in developed and developing countries. Cambodia introduced VAT in January 1999. This VAT reform had increased tax revenue to around 1% of GDP. The VAT is self-assessment system and it is collected at each stage of the process of production or distribution of goods and services and passes forward to ultimate customer. The VAT is a stable and flexible source of government revenue. This means that a change in the VAT rate translates immediately into more or less revenue. The VAT is less subject to evasion and avoidance than income tax. Some special considerations when introducing VAT should focus on single tax rate, few

exemptions, and more tax education. To reduce compliance and administration cost, VAT should be exempt for financial services, insurance, small business and small farmers.

The fourth topic is focus on the “Indirect taxation of financial sector supplies”. Financial sector taxation is complex both in theory and practice and it needs to evolve in response to financial innovation and wider economic changes. The most complex issues in the area of tax policy are the tax treatment of the financial services such as: banks, insurance companies, securities firms, investment funds, pension funds, and derivatives. The issues in financial sector taxation are covering both direct and indirect taxes, especially income taxes and VAT.

The fifth topic is the "Use of transfer pricing techniques in indirect tax policy”. Over the last two decades, the growth of setting transfer pricing which is internal sale of goods or services of multinational enterprise for tax avoidance purpose is a major concern of tax authority. Transfer pricing is not only a problem at the international level but also at domestic level. Tax authorities need to establish and enforce rules for setting price adjustment under or over-pricing between associated companies, and for tax assessment purposes. Those rules include (1) the comparable uncontrolled price method (CUP); (2) the resale price method; (3) the cost plus price method; and (4) any other price methods.

The sixth topic is focus on the “Introduction of property tax”. The property tax is the single most important local tax in developing countries. Internationally, over 130 countries have some form of tax on property. Cambodia is going to introduce property tax in 2011 for local government budget with low rate, some exemptions, and apply in cities for pilot program. Why property taxation? Because, no competition with central government, revenue potential is good/stable, administrative is relatively simple, economically efficient for land, tax on ability to pay, capture benefits of capital investments, and politically difficult but increases accountability.

The final topic is focus on the “Tax aspects of the FTAs Custom Union and WTO”. As a member of WTO and FTAs Custom Union, the Royal Government of Cambodia must gradually reduce the custom tariffs to some limits and most of them will be reduced to 0% rate. This reduction of tariff rates leads to decrease custom revenue which is a major source of government revenue. To compensate this custom revenue reduction, the Royal Government must continue the further tax reform, especially domestic tax reform such as: profit tax, salary tax, VAT, and excise. This reform may include introducing new taxes (property tax, personal income tax) and some new tax regulations, widening in the tax base, increasing tax rate on some items of excise tax, limiting tax exemption, strengthening tax compliance, and tightening of tax administration. Moreover, in 2011, as a member of WTO, Cambodia will be

reviewed under WTO compliance rules, especially reviewing the current tax system. Therefore, 2011 is a challenging year for Cambodia tax system.

Excellency, Ladies and Gentlemen!

Once again, on behalf of the Royal Government of Cambodia, I would like to take this opportunity to deeply thank the International Tax and Investment Center (ITIC), the Philippine Institute of Public Finance (PFIP) and the Center for Excise and Custom Study (CCES), University of Canberra who have cooperated with the Ministry of Economy and Finance, in initiating the Forum today for the world's best strategic thinkers on tax policy design and implementation and all related stakeholders to be better aware of the context above.

I wish you all fruitful, successful and productive discussions in this Forum over the next few days. I hope that all participants will actively engage in sharing of experience and ideas over various issues, and take this opportunity to build new working connection on this auspicious occasion. I hope that you will enjoy your stay in Siem Reap-Angkor and take some time to enjoy Cambodian culture. And I invite all of you to experience the magnificent wonder of Angkor Complex, which contributes to make Cambodia the Kingdom of Wonder.

Finally, I would like to wish Your Excellencies, Ladies and Gentlemen, national and international guests who participate in this Forum healthiness, happiness and success in all endeavors. May I now announce the opening of the forum.

Thank you for your attention!