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Legal and Tax

CAMBODIAN TAX UPDATE: INSTRUCTION ON GUIDELINES FOR REQUESTING VAT CREDITS AND REFUNDS

September 2023



On 8 August 2023, the Ministry of Economy and Finance issued Instruction No. 018 MEF.NT.GDT (the “**Instruction**”) to provide guidance to taxpayers on the procedures for claiming value added tax (“**VAT**”) credits and refunds. The Instruction aims to facilitate the VAT refund process, reduce uncertainties and disputes, and encourage voluntary compliance from taxpayers.

Before diving into the details, it’s important to understand that generally, requirements to be eligible for a VAT refund are:

- Be a registered VAT taxpayer
- Have a valid VAT registration certificate
- Have a valid taxpayer identification number
- Submit a VAT refund application to the General Department of Taxation (“**GDT**”)
- Provide all required documentation, including VAT invoices, purchase orders, and other supporting documents

IMPORTANT UPDATES

Guidelines for requesting a VAT credit

The guidelines for medium and large taxpayers to request a VAT credit are as follows:

1. Input VAT credits should be filed through the monthly e-filing system of the GDT.
2. They can only be filed in the month in which the local taxable supply or importation of goods by the taxable person occurred.
3. They can only be claimed on VAT-taxable supplies or importations for use in the provision of VAT-taxable supplies. Taxpayers who supply non-VAT-taxable goods or services cannot claim an input VAT credit.
4. Taxpayers must maintain documentation to support the input VAT credit, which includes:
 - For local purchases of goods or services, taxpayers must have the original tax invoices that meet the criteria stated in Prakas No. 723 MEF.PrK dated 14 August 2019 on Rules on the Use of Invoices. Input VAT credits will not be permitted with commercial invoices.
 - For imports, taxpayers are required to have the customs declaration and original payment receipts with the valid name and information of the requesting enterprise.

Guidelines for requesting a VAT refund

The guidelines for medium and large taxpayers to request a VAT refund are summarized below:

1. Taxpayers whose main activity involves exports or who are registered as a qualified investment project, and

other taxpayers who have input VAT credits for more than three consecutive months, can request a VAT refund.

2. The Instruction emphasizes that to receive the VAT refund within the timeframes specified in Prakas No. 576 MEF.Prk dated 19 June 2018 on the Mechanism for VAT Refunds, taxpayers must preferably submit their VAT refund request within three or six months, but not later than one year, so as to prevent the accumulation of input VAT credits over multiple years. The VAT refund timeframes specified in the Prakas are as follows:
 - For not-for-profit entities (diplomatic missions, foreign councils, international non-governmental organizations, and technical cooperation agencies of other governments are all included in this category): 15 business days.
 - For companies: 40 business days (this timeframe may be shorter for taxpayers who possess a Gold Taxpayer Compliance Certificate).
3. If the taxpayer accumulates input VAT credits and fails to request a refund for more than one year, the timeframes above will not apply.
4. Refunds will not be granted if taxpayers accumulate input VAT credits for more than three years (N-3). However, taxpayers can request a VAT refund for input VAT credits from the years before 2020 that have not been previously refunded. To do so, taxpayers must submit a request letter to the GDT by 31 December 2023. Furthermore, VAT refunds will only be allowed for input VAT credits that are supported by the relevant documents and can be verified against the data in their suppliers' tax declarations.
5. Taxpayers are required to keep their bank account information and company information up to date with the GDT.
6. Taxpayers must provide the required documents and VAT accounting records promptly and in full. Otherwise, the VAT refund request may be suspended or declined until the GDT receives these documents and records.
7. The GDT may temporarily suspend a VAT refund if the enterprise requesting the refund has outstanding tax liabilities or is subject to tax reassessment, until the tax arrears or tax reassessment is settled.

INSIGHTS FROM VDB LOI

"VAT returns" – the two words that have the ability to bring on confusion and panic to a business owner before the filing process has even begun. With adequate self-education, VAT returns really aren't so bad. We are here to help you by providing a few golden nuggets of VAT return advice.

Tip #1: Plan ahead and file your return on time

VAT is a self-assessed tax, which means that taxpayers are responsible for calculating and paying the tax themselves. The input VAT credit can only be filed in the month when the taxable supply occurred. For a timely refund, remember the refund request must be filed within three or six months after being eligible for the refund, but not later than one year. The Instruction also sets out an important deadline of 31 December 2023 for taxpayers that still have input VAT credits from years before 2020 to request a VAT refund. It is important to plan ahead and file your VAT return on time to avoid unnecessary losses.

Tip #2: Maintain proper accounting records

You must keep proper accounting records to support your VAT claims. These records should include invoices, purchase orders, and other documentation that





shows the VAT paid and the VAT collected. For example, the VAT on sales must be stated on invoices to provide documentary evidence for the credit claimed by a company.

Tip #3: Be aware of sales refunds and credit notes

If you receive a sales refund or credit note for VAT you've paid, you must reduce the amount of VAT you owe. You must also account for refunds and credit notes in your accounting records.

Tip #4: Be aware of reverse charges

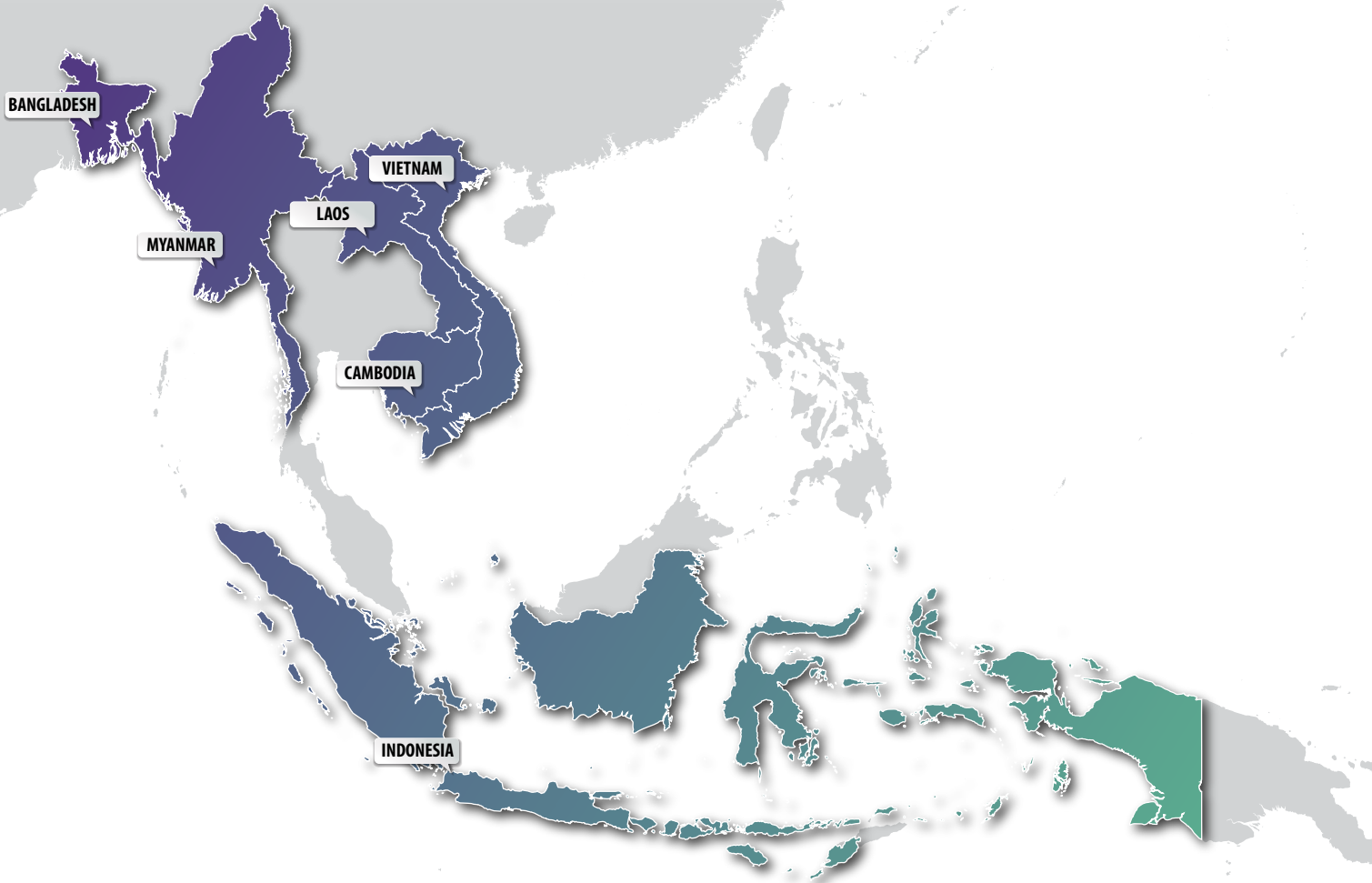
A reverse charge is a special rule that applies to certain cross-border transactions. Under a reverse charge, the buyer is responsible for paying the VAT instead of the seller. You must be aware of reverse charges if you make or receive cross-border payments.

Tip #5: Reconcile your VAT regularly

Taxpayers should reconcile their VAT regularly to ensure they have recorded it correctly. VAT reconciliation is the process of comparing the VAT that a business has collected from its customers against the VAT that it has paid on its purchases. VAT reconciliation is an important process that can help businesses ensure they are complying with the VAT regulations so as to avoid penalties and fines. It can also help businesses identify opportunities for VAT savings or refunds.

At VDB Loi, our team of experienced advisors can help you navigate the complex VAT refund process and get the results you need. We have a proven track record of success, helping a diverse base of businesses with their tax compliance needs. If you have any questions on this tax update, please contact the undersigned or your usual VDB Loi advisor.

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