



# Discover Transfer Pricing in Cambodia



# Bringing You Specialized Transfer Pricing Services

## About Us

The Transfer Pricing Team of Crowe (KH) Co., Ltd. is established to offer a full range of transfer pricing services. Our team of experienced tax and transfer pricing specialists will ensure that you receive the highest level of support in managing your transfer pricing affairs. We differentiate ourselves from our competitors by having a diverse team with experiences from various industries, being commercially-focused whilst managing the tax risks and providing value to our clients.

## Transfer Pricing Requirements in Cambodia

The Minister of Economy and Finance issued Prakas No. 986 MEF.PrK. on "Rules and Procedures on Income and Expense Allocation among Related Parties" on 10 October 2017 to introduce a Transfer Pricing regime in Cambodia to regulate related party transactions where at least one party to the transactions is a Cambodian entity. The Prakas takes effect immediately.

To a multinational group of companies ("MNC"), Transfer Pricing ("TP") is a day-to-day matter as related parties within

the MNC enter into business transactions with each other for sales and purchase of goods, services, properties, intangibles, and provision of financing. All these intra-group transactions involve transaction values, or transfer prices. The Prakas requires the MNC to observe the arm's length principle in setting their transfer prices, otherwise penalties will be imposed on offences relating to non-compliance of the Prakas.

The arm's length principle requires that the prices set for transactions between related parties ("controlled transactions") should approximate the prices transacted between independent parties under comparable terms and conditions.

The taxpayer is responsible to perform a comparability analysis to justify that the transfer prices are at arm's length, applying the 5 transfer pricing methods.

The Prakas defines "Related Party" as:

- a. Any family member / relative of the taxpayer; or
  - b. An enterprise that controls, controlled by, or under common control of the same taxpayer.
- The term "Control" means having ownership of 20% or more of the share capital or voting power of the board of directors in the company.

The five (5) transfer pricing methods prescribed in The Prakas are as follows:






A taxpayer is now obligated to disclose the related party transactions in its annual corporate tax return. Upon request by the tax authorities, the transfer pricing documentation should be made available for inspection. The transfer pricing documents must be kept for a period of 10 years from the end of the relevant taxable year.

Amongst the documents or information required in the transfer pricing documentation are:

- Organizational structure and group ownership structure
- Characteristics of the business operations
- Industry and market information
- Details of the controlled transactions
- Pricing policy and profit margins
- Functions, Assets and Risks ("FAR") analysis
- Comparability analysis
- Selection of the transfer pricing method
- Application of the transfer pricing method
- Other supporting documents (e.g. invoices, accounting records, agreements and other relevant documents).

Apart from other punitive measures, the Prakas imposes the following penalties on taxpayers who fail to comply with the documentation requirements:

-  The Fiscal Compliance Certificate of the taxpayer will be either revoked or re-evaluated;
-  The taxpayer will be penalized under Article 133 of the Fiscal Law; and
-  If necessary, the taxpayer can be prosecuted under criminal provisions of the Fiscal Law.

## Remarks

Given the current development to implement a new transfer pricing regime in Cambodia, getting ready a good set of transfer pricing documentation is essential to defend your transfer pricing position so as to avoid heavy tax costs in the future.

## How Can We Assist You?





## Contact us

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## About Crowe (KH) Co., Ltd.

Crowe (KH) Co., Ltd. is a related firm of Crowe Malaysia which is the 5th largest accounting firm in Malaysia and a member of Crowe Global which is a top 10 global accounting network. The firm in Malaysia has 13 offices, employs over 1000 staff, serves mid-to-large companies that are privately-owned, publicly-listed and multinational entities, and is registered with the Audit Oversight Board in Malaysia and the Public Company Accounting Oversight Board in US.

## About Crowe Global

Ranked the 8th largest accounting network in the world, Crowe Global has over 250 independent accounting and advisory firms in 130 countries. For almost 100 years, Crowe has made smart decisions for multinational clients working across borders. Our leaders work with governments, regulatory bodies and industry groups to shape the future of the profession worldwide. Their exceptional knowledge of business, local news and customs provide lasting value to clients undertaking international projects.

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