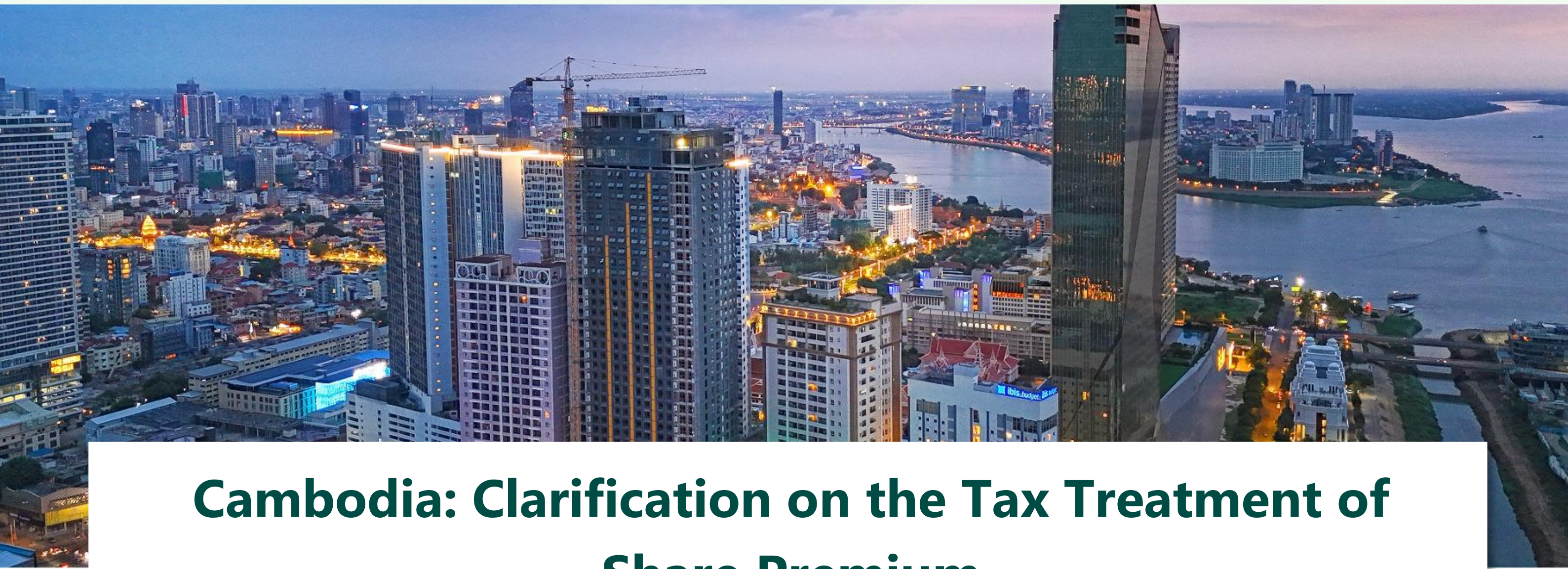


Cambodia: Clarification on the Tax Treatment of Share Premium

The General Department of Taxation ("**GDT**") has issued new guidance under Instruction No. 18574 GDT dated 17 June 2025 regarding the tax implications of share premium following concerns raised by taxpayers and Chambers regarding inconsistent interpretations during tax audits.

This clarification follows **Article 7 of the Law on Taxation** (Royal Kram No. NS/RK/0523/004, dated 16 May 2023) and **Prakas No. 578 MEF.P.GDT** (dated 19 September 2024), reinforcing the legal foundations for determining taxable income in Cambodia.

What's New?

The GDT confirms that:

1. **Share premium is not taxable income.** It is considered a **capital contribution** from shareholders and therefore excluded from the income tax base.
2. **However, documentation is critical.** Enterprises must ensure that both **share capital and share premium** are:
   - Fully paid into the business;
   - Clearly recorded in accounting records;
   - Supported by proper documentation, such as share subscription agreements and bank remittance records.

Caution: Where records are incomplete or missing, the GDT reserves the right to recharacterize capital injections as taxable income, exposing the enterprise to potential tax liabilities.

<u>Case Study</u>: How This Works in Practice

Enterprise A: Incorporated in 2020 with registered capital of KHR 600 million (150,000 shares at KHR 4,000 par value). In 2024, Enterprise A raised capital by issuing **200,000 new shares** to a new investor at KHR 10,000 per share, fully paid.

Breakdown	Amount (KHR)
Original Capital	600 million
New Issuance – Par Value (200k x 4k)	800 million
Share Premium (200k x 6k)	**1,200** million
Total Equity Post-Investment	**2,600** million

Outcome: Because proper records were maintained, the GDT affirms that **KHR 1.2 billion in share premium is exempt from income tax.**

What Should You Do?

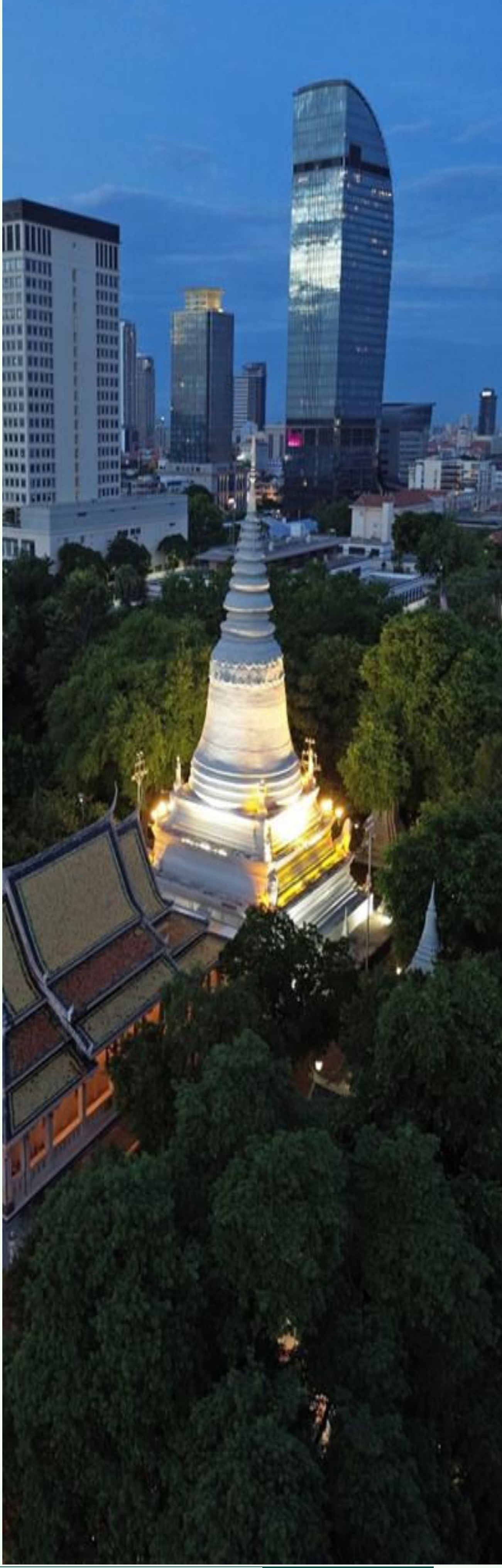
We recommend that companies intending to raise equity capital:

- Prepare comprehensive documentation before initiating share subscriptions;
- Ensure full payment of the subscription amount into company accounts;
- Coordinate with legal and tax advisors to structure capital raises in line with evolving GDT positions;
- Retain transactional proof such as shareholder resolutions, bank receipts, and updated registers.

Closing Thoughts

This development reflects Cambodia's intent to modernize its tax framework while providing legal certainty to investors. It also reinforces the value of robust corporate governance, especially as capital markets become more sophisticated.

For tailored advice on structuring your next capital raise or preparing for tax audits, feel free to contact your usual DFDL advisor or the authors.



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