Realizing Gains, Facing Tax: Cambodia Finalizes Capital Gains Tax Regime

Cambodia is turning the page on the taxation of capital gains. In a bold move to align with global tax practices and strengthen fiscal equity, the Ministry of Economy and Finance has officially implemented Cambodia's Capital Gains Tax (**CGT**) regime.

The Cambodian Government has introduced Prakas 496 MEF.PRK on Capital Gains Tax dated 18 July 2025 ("**Prakas 496**"). Prakas 496 signals a clear message: gains from property, shares, and financial assets are no longer out of the tax authority's reach from their respective dates of implementation.

Whether you're a real estate investor, shareholder in a Cambodian company, or considering a group restructure that involves Cambodian companies, the new CGT framework brings a mix of structure, scrutiny, and strategic opportunity.

With a flat 20% tax rate and detailed exemptions, deductions, and filing procedures, understanding Prakas 496 is not optional—it's essential.

The rollout of CGT begins from **1 September 2025** for leases, investment property (which includes **shares**), business goodwill, intellectual property, and foreign currency, with real estate coming under the spotlight from **1 January 2026**. That gives stakeholders a narrow window to reassess their portfolios and prepare for compliance.

We summarize below the key points of Prakas 496 with a more detailed analysis of some of the more critical aspects concerning share transfers.

Who Is Subject to CGT?

- **Tax Resident Individuals:**

  Present in Cambodia ≥182 days/year or with a principal abode/residence.

- **Non-Resident Individuals or Entities:**

  When earning capital gains from Cambodian assets.

Taxable Capital Assets

CGT applies to six (6) categories of capital as defined in Prakas 496:

- Immovable Property (e.g. land, buildings and construction erected on land as defined in the Tax on Immovable Property regulations)
- Leases and Subleases
- Investment Property (e.g. shares, bonds, securities)
- Goodwill (e.g. license, brand, customer lists)
- Intellectual Property (e.g. patents, literary and artistic works, logos, pictures and drawings used for commercial purposes)
- Foreign Currency (e.g. any currency other than Khmer Riel)

Gains are recognized when ownership or rights are transferred, registered, or judicially declared.

Tax Rate and Deductible Expenses

- **Flat CGT Rate:** 20% of net capital gain
- ***Deduction Methods:***

  Immovable Property

  - ***Two Deduction Methods:***
    Standard method: The taxable gain is calculated after deducting 80% from the sales proceeds

    Actual cost method: Verified expenses may be deducted i.e. the taxable gain is equal to sales proceeds less cost of the asset and less deductible costs

    Deductible costs include registration taxes, legal fees, consulting costs, property taxes, maintenance, and loan interest paid during ownership

- **Deduction Methods:**

  Shares and other capital (except Immovable Property)

  Deductible expenses include the paid share capital or equity or the cost of purchasing shares during the opening business or increased capital, valuation fees, commissions, consulting fees, and other direct transaction costs

  Market rate applies if no formal sales agreement is present

Exemptions and Carve-Outs

CGT is **not applicable** in the following cases:

- Sale of agricultural land by a tax resident who is a farmer genuinely engaging in farming and residing (by attaching an approval or confirmation letter on the use of agriculture land from the local authority or the tax administration)
- Sale of primary residences occupied ≥5 years
- Resident taxpayers who have paid CGT abroad on overseas property may offset the foreign tax if it's lower than Cambodian CGT
- Transfer of immovable property via succession among close biological relatives
- First-time donations among close biological relatives

- Public institutions, diplomatic missions, and transactions serving public interests
- Share issuance to increase company capital (not considered sale or transfer).

The transfer of shares in a Cambodian entity by a non-resident taxpayer that are subject to capital gains tax **will be exempt from deemed dividend withholding tax i.e.** if CGT applies to a transfer of shares in a Cambodian company then CGT will not apply on the same transfer.

A taxpayer who realizes a capital gain which is subject to capital gains tax, **shall be exempt from withholding tax on the payment of Cambodian-source income under Article 33 of the Law on Taxation.**

Compliance Obligations

- **Tax Filing Deadline:** Within **3 months** of capital gain realization
- **Withholding Requirements:**
  - The Cambodian company in which the shares are transferred must act as a withholding agent to declare and pay CGT on any applicable capital gain.
  - Transfers lacking CGT certification are considered as **not legally valid**

Regulatory Oversight & Dispute Resolution

- The tax administration retains inspection and reassessment rights
- Self-assessment regime taxpayers must also comply with **income tax regulations**
- CGT transactions fall under any **Double Tax Agreement (DTA)** provisions Cambodia has in force (please refer to the DTA section below)

Implementation Timeline

- **1 Sept 2025:** CGT applies to leases, investment assets, goodwill, IP, and FX
- **1 Jan 2026:** CGT applies to **real estate transactions**
- **Indirect Share Transfers:** To be governed by future regulations

Indirect Share Transfers – Awaiting Clarity

While the current Prakas establishes CGT on direct share transactions, **indirect transfers**—such as ownership changes through holding structures or offshore entities—are **explicitly carved out** and will be governed by **future regulations**.

For multinational groups and holding structures, this omission is both a reprieve and a warning: the tax net is expanding, and indirect ownership changes won't stay untaxed for long.

In transactions where Cambodian assets are sold via offshore entities or layered ownership chains, there's currently no explicit CGT trigger. However, the Prakas acknowledges indirect transfers as a future area of regulation, signaling alignment with the practice of several Asian jurisdictions.

Vietnam's Playbook: A Cautionary Model

Vietnam's approach offers clear lessons. Under recent changes to its Corporate Income Tax regime, Vietnam will tax gains from indirect transfers of Vietnamese assets, even when the deal is executed abroad. The Vietnamese tax authority looks through holding structures to assess economic substance—if a foreign entity's assets are primarily Vietnamese, a disposal can be taxed locally.

Key features include:

- Substance-over-form doctrine
- Mandatory tax declarations even for offshore transactions
- Priority on Vietnamese asset exposure rather than legal form

This model sets the tone for what Cambodia may emulate. A future regulation could adopt look-through rules, require disclosure of beneficial ownership changes, and enforce tax on upstream share transfers—especially when Cambodian enterprises are the underlying asset.

What Businesses Should Do Now

- Multinational and regional groups with layered corporate structures should prepare for compliance obligations once guidance is issued.
- In addition, tax planning strategies or restructures involving Cambodian and/or offshore holding companies may need to be reviewed as the level of scrutiny by the Cambodian tax authority will no doubt increase over the coming years.

Group Restructuring – Hidden Triggers

Although internal restructures may seem benign, **any loss of control or beneficial ownership**—even without a formal sale—can trigger CGT under the broadened definition of "transfer."

Implication:

- Group reorganizations involving **share swaps**, **mergers**, or **asset injections** could fall within scope if value is exchanged or ownership rights shift.
- Careful structuring and documentation—especially around valuation and intent—will be essential to defend against CGT exposure.

Market Value Determination – Administrative Discretion

The Prakas grants the tax administration discretion to **reassess declared sale prices**, using:

- Alternative purchase agreements
- Valuation annexes from registration tax rules
- Market assessments by the **Commission for the Assessment of Properties Implication.**
- Taxpayers must anticipate **audit scrutiny** and be prepared to defend valuations with formal appraisals, market comparables, or economic rationale.
- Transactions lacking arm's length features or involving related parties may face **upward tax base adjustments**, increasing CGT liability.

Impact of Double Taxation Agreements (DTA)

One of the strategic considerations for cross-border investors assessing Cambodia's new CGT regime is the potential relief offered under Cambodia's Double Tax Agreement network. Most, but not all, treaties provide a pathway for certain capital gains to be exempt from taxation in Cambodia, subject to specific conditions including which jurisdiction has taxing rights.

The concept of taxing rights under a DTA refers to the bilateral allocation of authority between two countries over specific categories of income—including capital gains. In essence, a DTA determines which country gets to tax which type of income, and whether the other country must exempt or grant a credit to prevent double taxation.

Here's how taxing rights work under the Cambodia–Singapore DTA, with a focus on capital gains:

⚖️ Taxing Rights: Who Taxes What Under the DTA

1. Immovable Property Gains

- Taxing Right Reserved to Cambodia: If a Singapore resident sells immovable property located in Cambodia, Cambodia retains the primary taxing right.
- No Treaty Relief: These gains are taxable under domestic law, and Singapore may provide a foreign tax credit to avoid double taxation.

2. Shares or Interests in Property-Rich Companies

- If a Singapore resident sell shares in a Cambodian company whose value derives mainly (more than 50%) from Cambodian immovable property, Cambodia retains taxing rights.
- This anti-avoidance clause prevents indirect property sales from escaping CGT.

3. Shares in Non-Property-Rich Companies or Other Assets

- Exclusive Singapore Taxation: If the asset being sold is not related to Cambodian immovable property, then capital gains are only taxable in Singapore.
- Cambodia must exempt the income from CGT even if the asset is technically Cambodian (e.g. shares in a service company with no property holdings).

✅ Key DTA Criteria for Exemption

- The taxpayer must be a resident of Singapore under the DTA definition, with valid Singapore tax residency certification
- The capital gain must arise from the disposal of assets not connected to Cambodian immovable property
- The transaction must comply with the non-abusive use of treaty provisions, meaning structures lacking economic substance or formed solely to obtain treaty benefits may be denied relief

⚠️ Critical Watchpoints

- Share transfers in Cambodian property holding companies may still trigger CGT under domestic law, despite DTA provisions—pending further guidance on how treaty override will be applied
- The Cambodian tax authority may scrutinize offshore structures for substance and ownership thresholds

  Documentation such as valid tax residency certificates from Singapore, full transaction details, and valuation reports may be essential for exemption claims
- It is currently unclear whether pre-approval from the Cambodian tax authority is required before the capital gains tax Article in the tax treaties that Cambodia has enacted that clarifies which jurisdiction has taxing rights on CGT can be invoked.

Our firm continues to monitor bilateral treaty applications in the context of Cambodia’s evolving tax landscape. For group structuring, asset disposals, or investment exits, engaging qualified tax advisors early will be key to optimizing treaty relief and avoiding unintended tax exposure.

Final Comments

As Cambodia ushers in its Capital Gains Tax regime, one thing is clear: comprehensive and robust paperwork is no longer just an administrative chore—it’s your strongest line of defense. Taxpayers navigating property sales, share transfers, or group restructures must ensure agreements are watertight, valuations are professionally validated, and every expense has a trail. The tax administration’s expanded discretion to reassess transaction value makes a robust share purchase agreement and supporting evidence not only advisable, but essential.

This isn’t just a compliance moment—it’s a strategic one. Whether structuring cross-border transactions or establishing residency status, expert tax advice can make the difference between smooth execution and costly exposure. With implementation dates fast approaching, now is the time to engage early, review asset portfolios, and ensure your deal documentation meets the new gold standard.

If you’re uncertain how this affects your tax position or transaction strategy, our tax and legal advisory team is ready to assist. Early preparation is your advantage—don't let ambiguity become liability.