



Investment in Lao PDR Tax updates

16 August 2017

Agenda

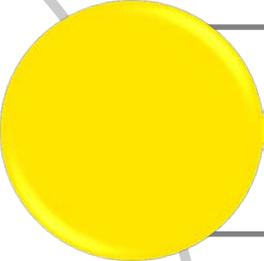
- ▶ Overview of foreign investment in Laos
- ▶ Taxation system in Laos
- ▶ Investment incentives
- ▶ Updates on foreign investment
- ▶ Other considerations

Overview of foreign investment in Laos



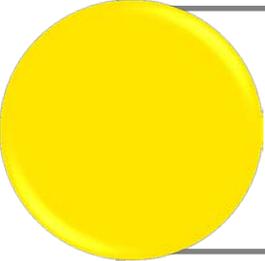
Type of investment

The investors may invest in the following types of investment:



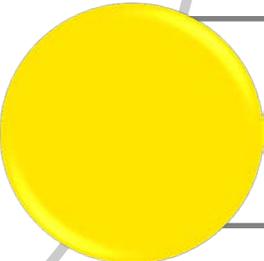
General Business

General business is an investment in the general business sector, including those defined in the list of controlled business but not a concession business.



Concession Business

Concession business refers to investment activities which require a prior permission from the Government to utilize ownership and other rights of the Government.



Investment in Special Economic Zone ("SEZ")

Activities for the development of SEZ refers to business activities that develop the comprehensive infrastructure and new cities to attract investments.

Form of enterprise

Company is the most common form of enterprise with capital being divided into equal shares.

Sole Limited Company

- ▶ A Sole Limited Company has only one shareholder

Limited Company

- ▶ A Limited Company shall have more than one shareholder and maximum to 30 shareholders

Public Company

- ▶ A Public Company has at least nine shareholders and the company's shares can be freely transferred and offered to the public

Form of enterprise (cont.)

The investors may set up a branch or representative office in Laos:

Branch office

A foreign corporation can only set up a branch office in Laos if it engages in certain business activities e.g., foreign bank, financial institution, insurance company, international consulting company and foreign airline

Representative office

Representative office is only allowed to collect information on investment for its headquarter to serve as a basis for future investment consideration. It does not have the right to do business

Foreign ownership restriction

- ▶ Some business activities that do not require high level of knowledge and/or big amount of capital are only reserved for Lao nationals, such as extraction of herbal, production of ceramic products.
- ▶ Foreign investors are permitted to invest in some business activities with conditions imposed such as minimum registered capital or foreign equity cap. Some examples are as below:
 - **Manufacturing:** Pharmaceutical products
 - **Construction:** Road, bridge, excavation and landfill
 - **Wholesale and retail**
 - **Transportation and warehouse:** Taxi meter and freight transportation
 - **Accommodation:** 3-5 star hotel
 - **Finance and insurance:** Commercial bank and bank branch
 - **Others:** Architecture, engineering and medical business, etc.

Land ownership restriction

- ▶ Foreign investors are not permitted to own land in Laos.
- ▶ Generally, land concessions granted by the state to foreign-invested enterprises are limited to 50 years. In all cases, leases may be extended with the approval of the competent authority.
- ▶ For the lease or concession of land having an area exceeding 10 thousand hectares, approval is required from the National Assembly.

Taxation system in Laos



Taxation system in Laos

Indirect taxes

Value Added Tax
("VAT")

Excise Tax
("ET")

Direct taxes

Profit tax
("PT")

Income Tax
("IT")

Value Added Tax (“VAT”)

Target

- ▶ Goods
- ▶ Services

VAT Payer

- ▶ Individuals, entities under VAT system
- ▶ Individuals, entities not under VAT system who import goods or purchase services from non-resident and non-established supplier

Tax rate

- ▶ 10% applied to import and domestic goods and services.
- ▶ 0% applied to export goods and import materials that cannot be domestically produced.

Excise Tax ("ET")

- ▶ Excise tax is an indirect tax levied on the consumption of certain goods and services.

Goods

- ▶ Fuel, alcoholic and soft drinks, tobacco, perfume and cosmetics, card and gambling, firework, motorcycle and car, air-conditioners and etc.
- ▶ Tax rates range from 3% to 90%

Services

- ▶ Entertainment services, bowling, beauty salon, television, internet, golf, lottery, casino and etc.
- ▶ Tax rates range from 10% to 35%.

Profit Tax ("PT")

Scope of profit tax

- ▶ This tax is also known as the "Corporate Income Tax". Enterprises engaged in manufacturing, trading and services are subject to Profit Tax on their Laos-sourced income. Foreign companies deriving income from Laos or entering into joint venture contracts with project owners in Laos are also subject to Profit Tax.

Profit tax rate

Type of business	Rate
Standard rate	24%
Tobacco business	26%
Freelancer	0 - 24%
Mining	As agreed with the government

Withholding Tax ("WHT")

- ▶ A foreign contractor having income from Laos shall be subject to withholding profit tax (Withholding PT) and withholding value added tax (Withholding VAT) with the applicable deemed rates as below:

Description	Withholding PT	Withholding VAT
Manufacturing	0.72%	10%
Commerce/Transport	1.2%	10%
Construction	2.4%	10%
Exploration drilling/filling land	3.6%	10%
Entertainment	6%	10%
Agent service	4.8%	10%
Advisory/Other service	2.4%	10%

Income Tax ("IT")

Scope of income tax

- ▶ Income tax is imposed on the income of individuals and legal entities that generate income in Laos

Different types of income and corresponding income tax rates

Employment income (0%-24%)	Dividend (10%)	Sale of shares (10%/2%)	Interest (10%)
Sale of land use right (5%/2%)	Royalty (5%)	Prize from 5,000,000 kip (5%)	Other Income (10%)

Tax compliance requirement

The deadline to declare and pay Lao taxes are as follows:

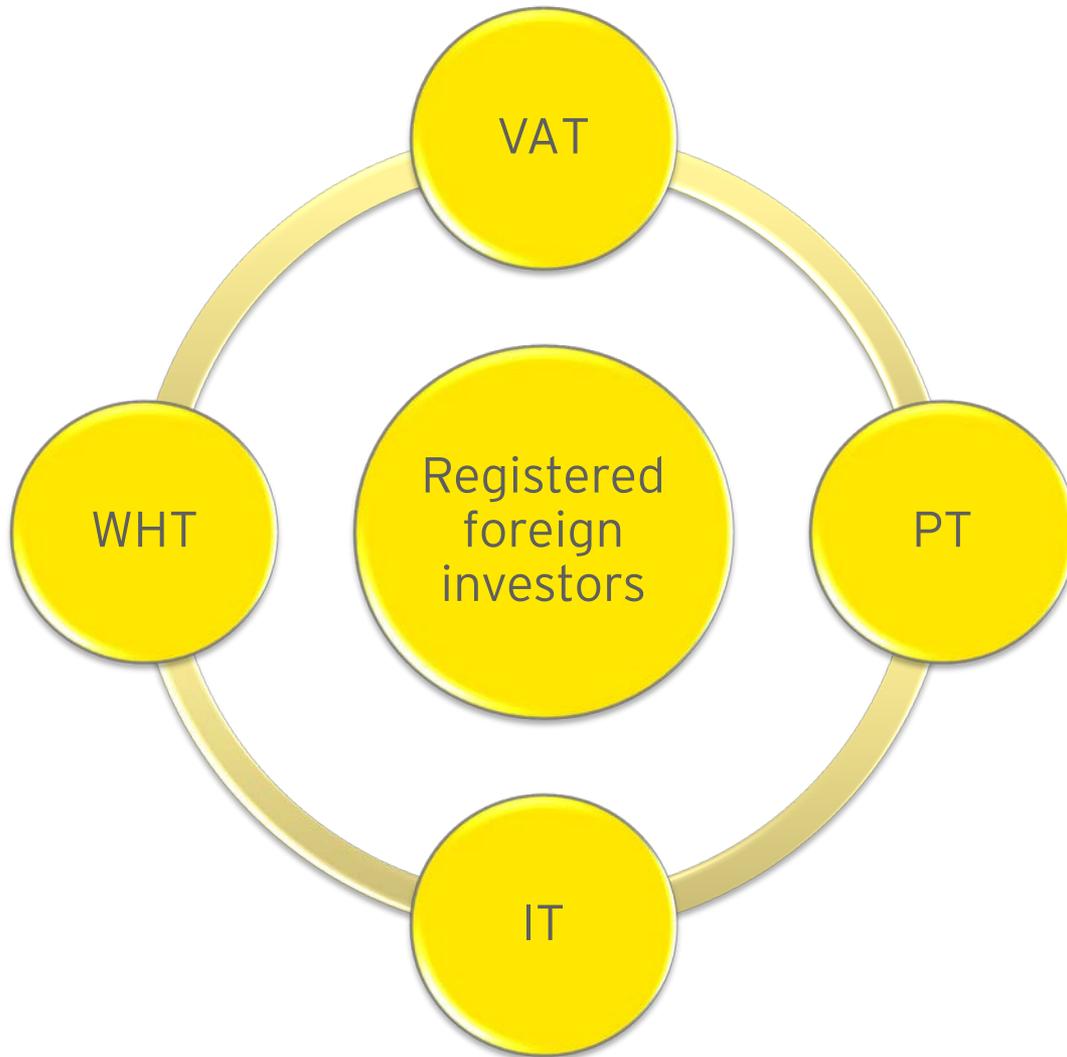
Tax	Declaration	Payment
(Withholding) Value added tax	Monthly: not later than 15th of following month; or Quarterly: not later than 15th of following quarter	Same deadline as declaration
Excise tax	Monthly: not later than 15th of following month	
Profit tax	Quarterly: not later than 10th of following quarter; Annual finalization: not later than 1st March of following year	
Personal income tax	Monthly: not later than 15th of following month No annual finalization is required	
Other income	Ad-hoc basis: within 10 days from payment date	
Withholding profit tax	Ad-hoc basis: within 10 days from payment date	

Double Tax Treaties (“DTTs”)

- ▶ Laos has entered into double tax treaties (DTTs) with several countries, of which the following are already effective:

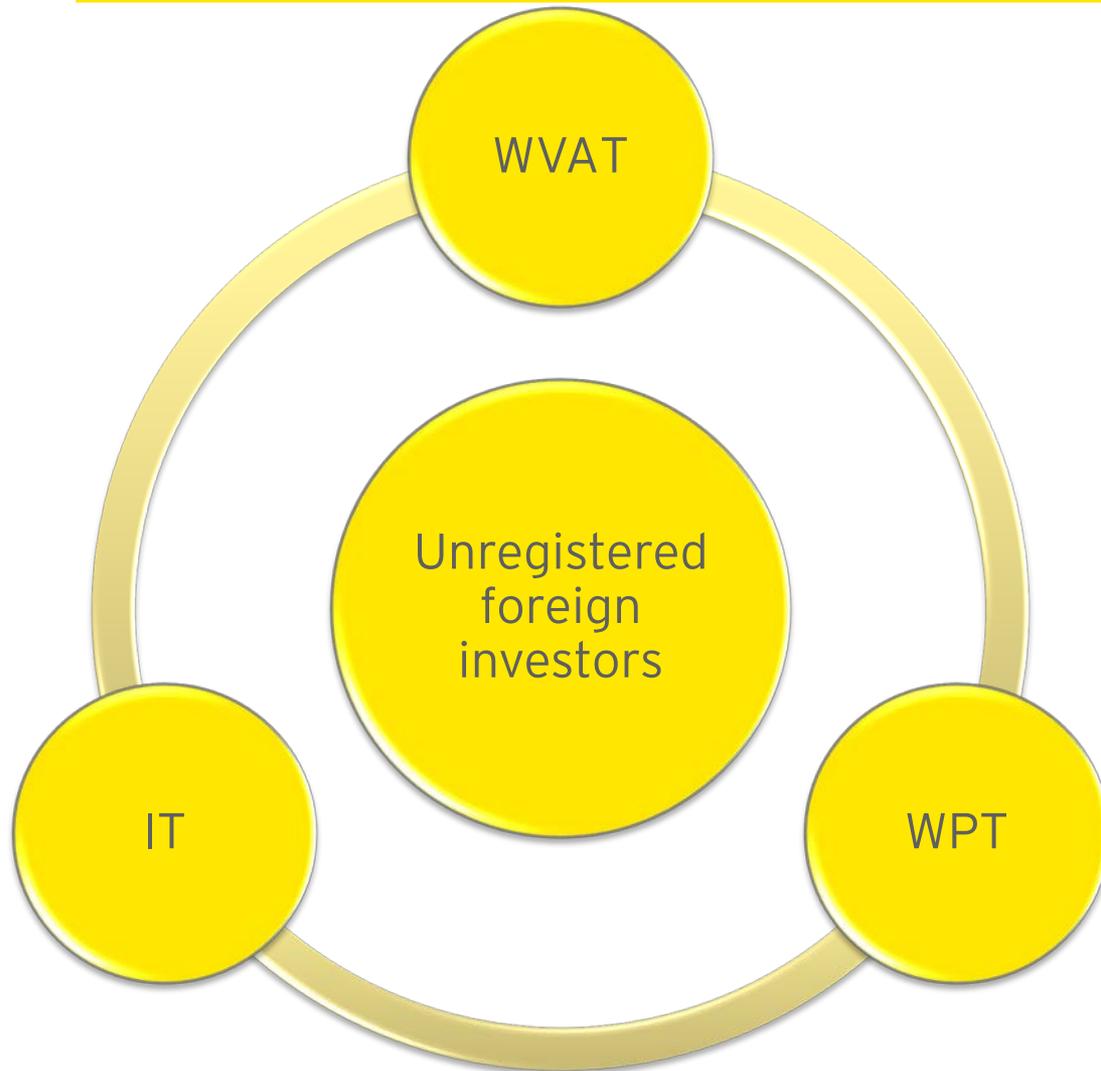
Country	Dividend (%)	Interest (%)	Royalty (%)
Brunei	5/10	10	10
China	5	5/10	5/10
Luxembourg	5/15	10	5
Malaysia	5/10	10	10
Myanmar	5	10	10
Vietnam	10	10	10
South Korea	5/10	10	5
Thailand	15	10/15	15
Belarus	5/10	8	5
Singapore	5/8	5	5

Common tax structure for foreign investor



- ▶ Foreign investors who registered a legal entity in Laos shall declare and pay all Lao common taxes by themselves based on their financial records.

Common tax structure for foreign investor (cont.)



- ▶ Foreign investors who have not registered a legal entity and have some business activities in Laos, such as construction projects, it is common that the Lao contracting parties shall withhold and declare Lao taxes (e.g. Withholding VAT and PT) on behalf of foreign entities.
- ▶ Foreign investor may choose to register for a temporary tax code and self-declare taxes as the same as Lao taxpayer.

Investment incentives



Promoted sectors

Sector 1	High and modern technology
Sector 2	Green agriculture
Sector 3	Green agriculture product processing
Sector 4	Natural, cultural and historical tourism
Sector 5	Education and human resource
Sector 6	Hospital, medicine and medical equipment
Sector 7	Infrastructure development
Sector 8	Micro financial institutions
Sector 9	Modern trade center

Promoted zones and incentives

Based on socio-economic conditions, available infrastructure and geography, there are three investment zones as below:

- ▶ Zone 1: Socio-economic infrastructure is not favorable for investment
- ▶ Zone 2: Socio-economic infrastructure is favorable for investment.
- ▶ Zone 3: Special economic zone

The incentives available for each zone and each sector are as below:

	Sector	Profit tax exemption	Land rental fee exemption
Zone 1	Sector 2,3,5,6	15 years	15 years
	Sector 1,4,7,8,9	10 years	10 years
Zone 2	Sector 2,3,5,6	7 years	8 years
	Sector 1,4,7,8,9	4 years	5 years
Zone 3	All sectors	According to specific regulations	

Other incentives

In addition to the profit tax incentives as above, investors may also be entitled to custom duty and other tax incentives as follows:

- ▶ Exemption from custom duty on import of fixed assets and machine that cannot be produced in Laos.
- ▶ Exemption from custom duty on import of raw material, equipment and parts used in production for export.
- ▶ Exemption from Value added tax (VAT) on domestic purchase of raw material, which are not natural resources for production of export goods
- ▶ Exemption from export duties on export products
- ▶ Exemption from profit tax in next one accounting year if net profit is reinvested to expand the business operations. Profit tax exemption in the next year shall be in proportion with profit ratio invested to expand business activities.

Special Economic Zone (“SEZ”)

Activities for the development of special economic zones refers to investment in comprehensive infrastructure to attract investments regarding modern technology, innovations in agricultural production, clean production and other sustainable and environmental developments

- ▶ For VAT purpose, trading activities between entities established in SEZ and other Lao entities shall be considered as import-export activities.
- ▶ Developer and investor in the SEZ shall receive special incentives such as customs, taxes and others according to concession agreement signed with the government.

Updates on foreign investment



Updates on foreign investment

The Lao authorities have limited the establishment of some industries:

- ▶ Recently, the Bank of Laos has temporarily suspended the establishment of new financial institutions. From 2016, the Bank of Laos has also suspended the establishment of new bank by domestic and foreign investors, except that the existing domestic banks or foreign banks can set up new offices or branches in Laos.
- ▶ In addition, the Prime Minister Office temporarily suspended the establishment of new insurance company from August 2016.

Some hot topics relating to Lao taxes are as below:

- ▶ VAT on banking and financial activities.
- ▶ Management and use of specific invoice issued by sale register machine.

Other considerations



Foreign exchange control

The transactions in foreign currency permitted are relatively limited in Laos. The conversion of LAK into foreign currency is permitted only for some purposes, such as:

- ▶ Import of goods
- ▶ Repayment of principal and interest from foreign loan
- ▶ Remittance of profit and dividend to foreign investor
- ▶ Transfer capital of foreign investor back to home or third country
- ▶ Transfer salary of foreigner back to home or third country
- ▶ Investment overseas
- ▶ Other purposes, e.g. medical treatment, education or travelling in overseas.

Visa and work permit requirement

- ▶ To work in Laos, a foreigner shall obtain a visa and apply for a work permit, residence card and multiple entry visa (if necessary).
- ▶ Labor units that receive authorization to import foreign labor must register and apply for a work permit within one month from the day of receiving authorization.
- ▶ A work permit can be valid for 3 months, 6 months or 12 months and can be extended. In total, the working period may not exceed five years.
- ▶ Currently, Lao has signed 45 bilateral visa exemption agreements and 5 unilateral agreements which allow some passport holders to enter into Laos without visa application. However, the exemption period is short term and generally for tourism purpose. In case that the period is longer than 3 months, foreigner shall apply for a visa, work permit, residence card and multiple entry visa as above.

Accounting requirement

Accounting Standard

- ▶ Laos does not have its own accounting standards. Entities in Laos are permitted to use International Financial Reporting Standards (IFRSs) to prepare and maintain accounting records.

Language and currency

- ▶ The financial statements must be presented in Lao language and in Kip.

Disclosure requirements

- ▶ Basic financial statements include a statement of financial position (balance sheet), income statement and explanatory notes to financial statements.
- ▶ Besides above statements, the financial statements of large-sized public interest entities and non-public interest entities shall include a statement of changes in equity and a statement of cash flow.

Accounting requirement (cont.)

Filing requirements

- ▶ Companies must prepare the annual financial statements and submit them to the Lao tax office within two months from the closing date of the annual accounts (31 December).
- ▶ Listed companies must submit a semi-annual report to the Lao Securities Exchange within 45 days after the end of the first 6 months of their accounting period while an annual report is required to be submitted to the Lao Securities Exchange within 3 months after the year-end.

Audit requirement

The entities and organizations whose annual financial statements shall be statutorily audited are as follows:

Foreign enterprises

Bank & financial institutions

Insurance companies & agents

Listed, security & public companies

State-owned companies

Loan & grant projects

Q & A

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