

Tax Rules for Seniority Indemnity



Seniority indemnity remains a key labor entitlement for employees under Undetermined Duration Contracts (UDCs). While its labor law obligations are well-established, employers frequently overlook its tax implications. This Law & Policy Insights document provides an understanding of the tax treatment of seniority indemnity to support your enterprise's practices, ensuring the accurate taxes withholding and full compliance.

Under Article 40 and Article 44 of the Law on Taxation of 2023, and Article 7 and Article 8 of Prakas No. 575 (MEF) on Tax on Salary, dated 19 September 2024, any remuneration provided to an employee in the course of employment is considered a taxable salary unless expressly exempted, which particularly also includes both types of seniority indemnity, the back-pay seniority indemnity and ongoing seniority indemnity.

Tax Treatment of Back-Pay Seniority Indemnity

In accordance with Circular No. 003 (MEF) on Tax Exemption for Back-Pay Seniority Indemnity Prior to 2019 and Seniority Indemnity from 2019 Onwards, dated 11 April 2019 ("Circular No. 003"):

- Back-pay seniority indemnity payment prior to 2019 is exempt from tax on salary for Cambodian employees working in the textile, garment and footwear sectors.
- Employers are allowed to treat the payment of seniority indemnity as a deductible expense for the purpose of income tax calculation for that financial year.

Tax Treatment of Ongoing Seniority Indemnity

Circular No. 002 (MEF) on Tax Exemption on Seniority Indemnity Payment from 2020, dated 24 March 2020 ("Circular No. 002") sets out the following rules:

- Seniority indemnity payment under KHR 4,000,000 (approximately USD1,000) is exempt from tax on salary for Cambodian employees of textile, garment and footwear sectors and other sectors.
- Any portion of seniority indemnity payment exceeding KHR 4,000,000 (approximately USD1,000) is subject to tax on salary.
- Employers are allowed to treat the payment of seniority indemnity as a deductible expense for the purpose of income tax calculation for that financial year.



Note that both Circular No. 003 and Circular No. 002 clearly state that the exemption on tax on salary applies to seniority indemnity payment made to Cambodian employees. However, the regulations do not clarify whether or not this exemption also covers the seniority payment made to expatriate employees. In light of this ambiguity, it is advisable to seek clarification from the tax authority.

References

- Law on Taxation, promulgated on 16 May 2023;
- Prakas No. 575 (MEF) on Tax on Salary, dated 19 September 2024;
- Circular No. 003 (MEF) on Tax Exemption for Back-Pay Seniority Indemnity Prior to 2019 and Seniority Indemnity from 2019 Onwards, dated 11 April 2019; and
- Circular No. 002 (MEF) on Tax Exemption on Seniority Indemnity Payment from 2020, dated 24 March 2020.

Further information

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Key Contact:



SOK Lor
Managing Director
T: +855 212 515
E: lor.sok@sxhlaw.com



LAM Kimleng
Associate
T: +855 93 238 885
E: kimleng.lam@sxhlaw.com