

Can an Employer Deduct from Service Charges?

Conclusion and Legal Implications from Arbitral Award No. 005/25



Photo by: Kimleng Lam

In the hospitality sector, operational losses such as broken glassware or damaged equipment appear to be considered as a daily business risks. In some cases, those risks were managed by some employers by setting aside a portion of service charges collected from the customers. However, does Cambodian Labor Law permit such a practice?

This question is recently addressed by the Arbitration Council interpretation in the Arbitral Award No. 005/25 – Phokeethra Resort & Spa (Cambodia), dated 30 October 2025. The decision offers significant guidance for the industry of hotels, restaurants, coffee shops, and service-based business in Cambodia.

The Practice of Deduction from Service Charges in Arbitral Award 005/25

For years, there has been a deduction by the employer of a percentage of the total service charges collected from the customers each month:

- 10% prior to 2018 as a reserve for breakage costs;
- 7.5% between 2018 and 2022, based on two agreements by which each of them is valid for two years;
- 7.5% continued beyond 31 December 2022, despite no new agreement being in place.

The deduction was intended to cover damage or breakage costs occurring during the employees' work performance. Rather than charging an individual employee who caused a loss, the deduction is carried out proportionately against the overall service charge.

Employees in this case challenged this practice of continuing deduction and demanded full distribution of all collected service charges. The key legal issue was whether the employer's unilateral deduction of current 7.5% of the total service charges as a reserve for breakage costs was legal under Cambodian Labor Law.



Legal Framework and Arbitration Council's Reasoning

1. Nature of Service Charges and Tips

The Arbitration Council considered that tips are remuneration that employees of certain industry (e.g., hotels, restaurants, coffee shops, etc.) received from customers. And that the employer is obligated to distribute all the collected tips to relevant employees in accordance with Article 134 of the Labor Law. [See also AA No. 11/03 – *Cambodiana Hotel*; AA No. 042/16 – *Victoria Angkor Company Limited (Victoria Angkor Hotel)*]

2. Permissible Wage Deductions

Article 127 of Labor Law allows employers to deduct wages only in certain circumstances:

- Tools and equipment required for work that are not returned;
- Items or materials under control or usage of employees;
- Advanced amount to buy aforementioned items;
- Outstanding amount owed to the company.

Note that the deductions must not exceed what is necessary for the employees and their family living.

Service charge is part of wages. The Arbitration Council interpreted that service charge is considered part of the wages as stipulated in Article 102 and Article 103 of Labor Law, and the employer could potentially deduct from it if employees caused damage to materials they were responsible for.

Why is the Employer's Unilateral Deduction of 7.5% of Service Charges Non-Compliant with Labor Law?

The Arbitration Council ruled that the employer's unilateral practice of deducting 7.5% of the total service charges, as the reserve for any breakage costs on a proportionate basis from all departments, is not compliant with Article 127 of the Labor Law.

Furthermore, the Internal Rules of the hotel stipulates that an individual employee is responsible for loss or damage caused by themselves while on duty. The Arbitration Council found that the employer's practice of unilaterally deducting the 7.5% proportionately from all departments rather than from the specific employee who caused the damage did not comply with its own Internal Rules.

The Decision. The Arbitration Council ordered the employer to distribute all service charges collected from customers to the employees. The Arbitration Council further ordered the employer to stop deducting the 7.5% for breakage costs, starting from the date of the arbitration award.

Sok Xing & Hwang's Commentary

This Arbitral Award sends a clear message to employers in the hospitality and services industry that:

- Service charges are legally protected as wages; and
- Employers may not unilaterally create the reserve funds by deducting a certain percentage from service charges.

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KEY CONTACTS:



SOK Lor

Managing Director, Sok Xing & Hwang

T: +855 12 212 515

E: lor.sok@sxhlaw.com



Hans S. HWANG

Senior Director, Sok Xing & Hwang

T: +855 92 308 995

E: hans.hwang@sxhlaw.com



LAM Kimleng

Associate, Sok Xing & Hwang

T: +855 93 238 885

E: kimleng.lam@sxhlaw.com