



HIGH-LEVEL SUMMARY TECHNICAL ASSISTANCE REPORT

CAMBODIA

A Roadmap for Tax Expenditure Assessment

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High-Level Summary Technical Assistance Report

Fiscal Affairs Department

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The *High-Level Summary Technical Assistance Report* series provides high-level summaries of the assistance provided to IMF capacity development recipients, describing the high-level objectives, findings, and recommendations.

ABSTRACT: This technical assistance report responds to Cambodia's Ministry of Economy and Finance request to support the development of a comprehensive framework for assessing tax expenditures. The report finds that Cambodia's tax expenditures are widespread, costly, and largely unreported, with preliminary estimates pointing to sizeable fiscal cost. The assessment covers four major taxes—Personal Income Tax, Business Income Tax, Value Added Tax, and Specific Taxes (excises)—and recommends establishing clear benchmark tax systems, improving data quality, and institutionalizing regular tax expenditure reporting integrated into the budget process. The report emphasizes prioritizing capacity building, developing microsimulation models, and focusing evaluation efforts on the costliest tax expenditures to enhance transparency, fiscal discipline, and revenue mobilization.

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Background

Cambodia has embarked on a medium-term Revenue Mobilization Strategy (RMS) aiming to increase tax revenue from 12.5 percent of GDP in 2024 to at least 14 percent by 2028. Recognizing the significant erosion of the tax base by various tax expenditures, especially investment incentives, the government is prioritizing improving transparency and management of these tax reliefs. The Ministry of Economy and Finance (MEF) requested technical assistance from the International Monetary Fund's Fiscal Affairs Department to support the design and implementation of a structured Tax Expenditure Assessment (TEA) framework.

The mission, conducted in late 2025, focused on assisting Cambodia in defining benchmark tax systems, identifying and costing tax expenditures, and preparing for the inaugural Tax Expenditure Report. This initiative builds on prior efforts, including a preliminary 2025 Tax Expenditure Study by the authorities' Tax Expenditure Working Group, and aligns with ongoing Public Financial Management (PFM) reforms and international best practices. The project is critical for enhancing fiscal transparency, informing tax policy reforms, and supporting the RMS objectives.

Summary of Findings

The technical assistance mission found that Cambodia's tax expenditures are extensive, complex, and impose a significant burden on the tax system. These tax expenditures arise from a diverse array of statutory tax reliefs embedded in the Law on Taxation, investment tax incentives under the Law on Investment, and discretionary tax concessions granted by various authorities, including contractual arrangements. The most significant fiscal costs stem from specific (excise) taxes, particularly tax expenditures on fuel, followed by VAT exemptions and business income tax holidays, mainly for Qualified Investment Projects (QIPs). Personal income tax expenditures are less well quantified due to data limitations but may not be insignificant given the fragmented personal income tax framework.

The mission emphasized the absence of clearly defined benchmark tax systems for the major taxes, which hampers consistent identification and costing of tax expenditures. For personal income tax, a conceptual dual income tax benchmark separating labor and capital income is recommended. For business income tax, a broad-based profit tax benchmark with a uniform 20 percent rate is advised. The VAT benchmark should be a single-rate tax on all domestic consumption with specified exemptions consistent with international norms. For specific taxes, a benchmark based on taxing domestic social costs at categorical rates reflecting the higher of weighted average effective and modal statutory rates is proposed.

Data quality and availability were identified as key constraints, particularly the need for improved access to microdata from tax returns. The mission developed preliminary costing models, including a VAT microsimulation model using Cambodia's Social Accounting Matrix and household survey data, which revealed that many VAT exemptions poorly target lower-income households. The mission also highlighted that tax expenditure reporting is currently not integrated into Cambodia's budget process, and tax expenditures are not consistently recorded and reported internally, which may hinder fiscal planning.

The report underscores the importance of institutional arrangements, recommending that the MEF's General Department of Policy lead the tax expenditure assessment project with active collaboration from the General Department of Taxation, General Department of Customs and Excises, and the National Institute of Statistics.

Summary of Recommendations

The report recommends that Cambodia commit high priority and sufficient resources to the tax expenditure assessment project, aiming to produce its first comprehensive Tax Expenditure Report by the end of 2026. This requires agreeing on the scope and timeline, clearly defining benchmark tax systems for personal income tax, business income tax, VAT, and specific taxes, and systematically identifying all tax expenditures—including statutory reliefs, investment incentives, and discretionary concessions.

To improve costing accuracy, the authorities should enhance data quality and access, including developing microsimulation models for personal and business income taxes and adopting a VAT microsimulation model based on forthcoming Supply-Use Tables and household expenditure data. Strengthening interagency collaboration will be critical for data sharing and methodological consistency.

The report advises integrating tax expenditure reporting into the budget preparation process and embedding this obligation in PFM legislation to ensure transparency and accountability. It cautions against recording tax expenditures as actual tax revenue to avoid fiscal misrepresentation.

While evaluation of tax expenditures' effectiveness is important, the report recommends separating this from the tax expenditure assessment and reporting process to avoid politicization and delays. Future evaluation efforts should focus initially on the costliest tax expenditures, such as QIP tax holidays, employing simple descriptive analysis and international evidence, and progressively adopting more sophisticated cost-benefit methodologies with development partner support.

Finally, the report encourages the authorities to review and rationalize tax expenditures as part of broader tax reforms, particularly for personal income tax and excise duties, to enhance equity, efficiency, and revenue mobilization in line with Cambodia's socio-economic development goals and the recently adopted RMS.

This roadmap provides Cambodia with a structured, transparent, and sustainable approach to managing tax expenditures, supporting its medium-term fiscal consolidation and equitable growth objectives.