



cutting through complexity

Laos Tax Profile

Produced in conjunction with the
KPMG Asia Pacific Tax Centre

Updated: June 2015



Contents

1	Corporate Income Tax	1
2	Income Tax Treaties for the Avoidance of Double Taxation	5
3	Indirect Tax	6
4	Personal Taxation	7
5	Other Taxes	9
6	Free Trade Agreements	10
7	Tax Authority	11

1 Corporate Income Tax

Corporate income tax

Profit tax

Small and medium enterprises that are not registered under the Value Added Tax (VAT) system are subject to lump-sum tax instead of profit tax. This applies to enterprises which have annual revenue of less than LAK 12 million.

Tax rate

A 24 percent profit tax rate applies to both domestic and foreign businesses, except for companies registered in the Lao Stock Exchange, which benefit from a five percent reduction of the normal rate for a period of four years from the date of registration in the Stock Exchange. After this period, the normal profit tax rate applies.

A 26 percent profit tax rate applies to companies whose business is to produce, import, and supply tobacco products. Two percent of the tax paid by tobacco companies shall contribute to the Cigarette Control Fund (Article 46 of the Law on Tobacco Control).

Small and medium enterprises that are not registered under the VAT system pay lump-sum tax at progressive rates between three percent and seven percent, depending on the nature of the business and its revenue.

Residence

There is no definition of residence for tax purposes in Laos. All companies (i.e. all forms of legal entity) that are registered under Lao law, or that are incorporated under foreign law and are carrying on business in Laos, are subject to Lao profit tax.



Compliance requirements

Profit tax payments shall be made on a quarterly basis as follows:

- 1st Quarter: on or before 10 April – based on self-assessment by the entity submitted to tax authority
- 2nd Quarter: on or before 10 July – based on self-assessment by the entity submitted to tax authority
- 3rd Quarter: on or before 10 October – based on self-assessment by the entity submitted to tax authority
- 4th Quarter: on or before 10 March of the following year – based on self-assessment (tax return) by the entity submitted to tax authority or assessment by tax authority

The quarterly liability for profit tax is calculated based on one of the following:

- The profit tax paid during the previous year
- The actual profit during the current year
- The profit of a project as stated in the tax payment plan.

If the profit tax paid within the year is not calculated based on the actual current year profit, and exceeds the actual annual profit tax payable, the excess profit tax shall be offset against profit tax payable in the following year. If the amount paid during the year is less than the actual amount due, the extra will be added to the year-end assessment.

International withholding tax rates

Dividends paid to individuals or legal entities that are registered aboard are subject to withholding tax at the rate of 10 percent.

Royalties paid to individuals or legal entities that are registered aboard are subject to withholding tax at the rate of five percent.

Interest paid to individuals or legal entities that are registered aboard is subject to withholding tax at the rate of 10 percent.

These withholding tax rates may be reduced under an applicable tax treaty. As there is limited outward investment from Laos, the tax treaty provisions for relief tend to follow the approach taken by the other country that is a party to the tax treaty.

Holding rules

Dividends for residents and individuals or legal entities that are registered aboard are subject to income tax at the rate of 10 percent of the gross dividend received.

There is no separate capital gains tax in Laos.



Tax losses	<p>Losses (which are agreed to by the National Audit Authority or an independent audit company, with acknowledgment of the tax authorities) may be carried forward for three years.</p> <p>Losses cannot be carried back.</p>
Tax consolidation / group relief	There are no grouping provisions in Laos.
Transfer of shares	<p>Share sale and purchase agreements are subject to stamp duty at a rate ranging from LAK 15,000 to LAK 100,000 depending on the purchase value.</p> <p>Income from profit from the sale of shares is subject to income tax at the rate of 10 percent.</p> <p>However, profits from sale of shares in a stock market are exempt from income tax.</p>
Transfer of assets	<p>Agreements for the transfer of assets are subject to stamp duty. The rates vary depending on the asset type and the purchase value.</p> <p>Income from the transfer of land and buildings is subject to income tax at the rate of five percent.</p>
CFC rules	There are no CFC rules in Laos.
Transfer pricing	There are no transfer pricing rules in Laos.
Thin capitalisation	<p>Laos does not have a thin capitalisation regime.</p> <p>All interest payments must be supported by relevant documentation showing that the payments are made for business purposes. Otherwise, the tax authorities may disallow an element of the interest expense.</p>
General anti-avoidance	There are no general anti-avoidance provisions under Lao tax law.
Anti-treaty shopping	There is no anti-treaty shopping provision in Laos.
Other specific anti-avoidance rules	There are no other specific anti-avoidance rules in Laos.



Rulings

There is no formal ruling system in Laos.

A taxpayer who seeks clarification regarding tax payments or tax law may submit a proposal letter for clarification to the tax authority. A clarification letter from the tax authority may be given on a case by case basis. A clarification letter is not binding, but the letter can be used in future negotiations with the authority.

Clarification letters from the tax authority, given to a particular taxpayer, are not made publicly available.

Intellectual property incentives

There are no intellectual property incentives available in Laos.

R&D incentives

Tax incentives under the Law on Investment Promotion (discussed in the 'Other Incentives' section below) may apply to scientific research and development expenditure.

Other incentives

The Law on Investment and Promotion provides special tax incentives for investors in Laos. These incentives are summarized below:

- Reduced tax rates for a company that has an investment agreement with the Government of Laos.
- Certain investment incentives may be made available to investors where the relevant project relates to encouraging specific sectors or is located in certain regions.
- If a foreign enterprise is granted an initial tax exemption period of two to four years and suffers losses in that period, it may be permitted to carry the losses forward. The losses may then be deducted from taxes levied on profits in the following year, or carried forward up to three years.
- Raw materials and intermediate components that are imported in order to achieve import substitution are eligible for special duty reductions.

Hybrid instruments

There is no concept of hybrid instruments in Laos.

Hybrid entities

There is no concept of hybrid entities in Laos.

Special tax regimes for specific industries or sectors

A special tax regime applies to entities in the high capital intensive sector which are able to be granted a Concession Agreement with the Government. A Concession Agreement allows entities to receive tax holidays based on negotiation.



2 Income Tax Treaties for the Avoidance of Double Taxation

In Force	Brunei	Korea (Republic of)	Malaysia	Thailand
	China	Luxembourg	Myanmar	Vietnam

Negotiated, not yet in force at time of publication Treaties with Indonesia, Kuwait, and Russia have been negotiated but are not in force at the time of writing.

Source: IBFD



3 Indirect Tax

Indirect tax

Value Added Tax (VAT)

Standard rate

The standard rate of VAT is 10 percent.

VAT applies to a wide range of products, including electricity, water, fuel, and all imported products, unless they receive an exemption from the Government of Laos.

Further information

For more detailed indirect tax information on various countries, refer to:

[2015 KPMG Asia Pacific Indirect Tax Guide](#)



4 Personal Taxation

Income tax

Income tax

Top rate

The top rate of income tax is 24 percent.

Employees whose employer has a contract signed with the Government of Laos (e.g. investors with concession agreements) before Presidential Decree No. 001/PS of 1 March 2011, will be subject to personal income tax at a flat rate of 10 percent until the contract expires or is renewed / extended.

Social security

The Law on Social Security No 34/NA and the Instruction on Social Security Law (which has been enforced from 1 January 2015) apply. There are requirements for compulsory and voluntary registration for the Social Security Fund.

Those compulsorily required to register are as follows:

- Lao Front for National Construction, mass organizations and civil society;
- Government officers, civic servants, soldiers, police, retired employees, disabled people and their family members;
- state-owned enterprises, private enterprises, banks, financial institutions, educational institutions, private hospitals, factories, those working with machinery, hotels, department stores, restaurants, farms, and other investment projects;
- Employees who receive salary and wages;
- Local employees working in embassies, consulars, Intentional organizations, and NGOs based in Lao P.D.R; and
- Expatriates receiving salary or wages.

Those voluntarily able to register are individuals who are working as farmers, merchants, service providers, free lancers and others who wish to be involved in SSO.

The Law requires a deduction from gross salary as follows:

- 6 percent to be paid by the employer
- 5.5 percent to be paid by the employee.

Any salary monies over LAK 2,000,000 per month are not taken into account when calculating Social Security payments. As a result, the maximum monthly social security payment will be LAK 120,000 per month for employers and LAK 110,000 per month for employees.



International social security agreements

Laos has no international social security agreements.

Further information

For more detailed personal taxation information for various countries, refer to:

[KPMG's Thinking Beyond Borders](#)



5 Other Taxes

Customs duty

Duties are levied on all types of imported and exported commodities at varying rates from 5 percent to 40 percent. Administrative fees are levied at 5 percent ad valorem on equipment and materials.

Excise duty

Excise tax is collected on certain types of goods, including fuel (5 percent to 25 percent), alcohol (50 percent to 70 percent), carbonated drinks and invigorating drinks (5 percent to 10 percent), tobacco products (60 percent) and cosmetics (20 percent).

Imports of equipment, means of production, spare parts, and other materials used in the operation of foreign investors' projects or in their productive enterprises are taxed at a uniform flat rate of one percent of the imported value. Raw materials and intermediate components, imported for the purpose of processing and then exported, are exempt from such import duties with approval from relevant ministries.

Stamp duty

Stamp duty rates vary depending on the type of instrument.

Property tax

Land taxes vary depending on the location and the type of the land. The calculation of land tax is based on both the location and the size of the land and is levied at annual rates per square meter. Land tax is payable in the first quarter of the relevant calendar year.

Inheritance tax

There is no inheritance tax in Laos.

Prize or lottery

Prizes or lottery wins in Laos exceeding LAK 1 million are subject to income tax at the rate of 10 percent.

Tax on natural resources

Natural resources tax applies to the oil and gas industry and businesses involved in the exploitation of rare and precious resources, including oil shale/petroleum and natural gas, metallic/non-metallic minerals, construction materials, peat, anthracite, hydro-electric power and land concessions. Tobacco, coffee, tea, and flower seeds are also subject to natural resources tax.

The applicable rates vary from 5 percent to 25 percent of the sale or export price or are based on a tax per cubic meter. For wood, the taxes vary depending upon the type of wood.

Environment Tax

Applies to individuals, legal entities, and organisations licensed to conduct activities deemed to be damaging to the environment, ecology, or people's health. Details are to be announced.



6 Free Trade Agreements

In force

- ASEAN:

Brunei Darussalam	Laos	Philippines	Thailand
Cambodia	Malaysia	Singapore	Vietnam
Indonesia	Myanmar		

- ASEAN – China
- ASEAN – India
- ASEAN – Japan
- ASEAN – South Korea
- ASEAN – Australia – New Zealand

Negotiated, not yet in force at time of publication

- Luxembourg

In negotiation

- ASEAN – Japan – S. Korea – China
- ASEAN – Japan – S. Korea – China – Australia – New Zealand – India



7 Tax Authority

Tax authority

Ministry of Finance – Tax Department, Tax Division of Vientiane Capital and Tax District

[Ministry of Finance – Tax Department Website](#)

Tax audit activity

The tax authority predominantly adopts a risk based approach to the selection of returns for audit. As a matter of practice, larger entities are generally audited annually.

A tax audit may be opened into any tax return filed. In our experience, the majority of companies can expect to be audited by the tax authority each year.

A typical tax audit commences with an official letter requesting provision of supplementary analysis or information. The audit will include a site visit to inspect records, including the abovementioned supplementary information, and to enquire about any unclear issues or possible disagreements.

Taxpayers are advised to contact their tax advisor immediately when a tax audit commences or any correspondence is received from the tax authority. Audits into any given return generally last 10 days but it can take longer to reach a resolution in more complex cases.

Key focus areas for the tax authority in tax audits conducted in recent years have included:

- Revenue and expenses per tax calculation
- Tax deductible and non deductible expenses
- VAT for construction, import-export goods and services
- All Income and benefits of outsourced labour.

The tax authority's approach to tax audits is largely manual, including detailed consideration of invoices and key documents.

Appeals

There is no formal tax appeal process in Laos. However, a taxpayer who does not agree with the tax audit by the officer may submit a proposal letter to the tax authority for reinvestigation.

Tax governance

There are no specific schemes or incentives offered which encourage taxpayers to adopt best practices in terms of tax governance or controls.



Contact us

Ganesan Kolandavelu
Partner
KPMG in Laos
T +856 21 900344
E ganesan@kpmg.co.th

Wirat Sirikajornkij
Partner
KPMG in Thailand
T +66 26772423
E wsirikajornkij@kpmg.co.th

Solida Bouddavanh
Assistant Manager Tax & Legal
KPMG in Laos
T +856 21900344
E sbouddavanh@kpmg.com

This profile was provided by professionals from KPMG's member firm in Laos.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2015 KPMG International Cooperative ("KPMG International"), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.



The KPMG name, logo and "cutting through complexity" are registered trademarks or trademarks of KPMG International.