DFDL
LEGAL & TAX

THE TAX POCKET GUIDE TO INVESTING IN THE LAO PDR

2015 EDITION

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The information provided in this guide is based on our understanding of publicly known Lao PDR laws, regulations and official practices as of May 2015 and may be affected by laws that are subsequently adopted by Parliament or notifications that are adopted by various ministries. There may also be instances where the unofficial practices applied by the Government authorities (including the tax authorities) are not in accordance with or even contradictory to Lao PDR law. More importantly, as the decisions of the courts and tax authorities are not made publicly available, it is possible that the tax authorities or the courts will adopt an interpretation of Lao PDR laws which is not in accordance with our interpretation. Furthermore, not all laws and regulations are published.

For more information, please email us at laos@dfdl.com or visit www.dfdl.com.

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1. LAO PDR REGULATORY OVERVIEW

The current legal system has been influenced by Lao tradition and custom, socialist ideology, and the legal and economic transitions taking place in neighboring countries. The development of the legal system is also being driven by the requirements of regional integration, notably membership of the Association of Southeast Asian Nations (ASEAN) and accession to the World Trade Organization (WTO).

Since 1986, the Lao PDR has adopted structural economic reforms with the objective of developing a "market economy with adjustment by the state". In this respect, the government has promoted the transition to a market economy, focusing on:

- price deregulation;
- a single exchange rate system;
- corporatization and privatization of public enterprises;
- enforcement of the tax system;
- commercial liberalization; and
- promotion of foreign investment.

The main legislation governing investment in the Lao PDR is the Investment Promotion Law. The same investment rules apply to both foreign and domestic investors. The law outlines promoted activities, forms of permitted investment, investment terms, tax incentives, rights and duties of investors, and the investment licensing process.

The Investment Promotion Law has been in force since 2011. It introduced fundamental changes, including the following:

- lower foreign shareholding requirements for businesses;
- changes to the licensing authorities and procedures;
- longer investment terms;

- changes in the process for the establishment of representative offices and branches;
- the establishment of clear timeframes for consideration of investment applications; and
- amendments to the profit tax and customs duties exemptions.

Companies registered under the former Foreign Investment Law of 2004 may opt into the new regime, failing which they will remain subject to the former law.

2. SETTING UP BUSINESS IN THE LAO PDR

a) Commonly Used Business Forms

The Investment Promotion Law provides three main business forms:

- establishment of a joint venture between foreign and domestic Lao investors;
- establishment of a wholly foreign-owned or wholly domestic-owned enterprise; or
- business cooperation by contract.

Business cooperation by contract theoretically allows companies to transact business in the Lao PDR without establishing an entity in the country. However, this form of investment is rarely pursued by investors as it is not eligible for tax incentives. Other disadvantages are the ownership of all assets vests in the Lao counter-party and it cannot be used for state concession activities such as mining and energy projects. Joint ventures and wholly foreign-owned enterprises are the principal means through which foreign investment takes place in the Lao PDR, and both involve the establishment of legal entities in the country.

A joint venture is a contractual arrangement between two or more parties for the purposes of executing a particular business undertaking. A joint venture arrangement can be made by a foreign investor with either a private domestic investor from the Lao PDR, or with a public-sector entity. However, the foreign investor is required to contribute a minimum of 10% of the registered capital (i.e. stated share capital) to the enterprise. Such a joint venture can take the form of a general partnership, a limited partnership, a limited company, a state company, or a public company, as provided under the Enterprise Law.

Further, the Investment Promotion Law requires that registered capital be not less than 30% of the total capital in case of concession-related businesses, where total capital equals registered capital plus long-term debt and retained earnings.

A wholly foreign-owned entity in the Lao PDR can take several forms, including a sole trader enterprise, a sole limited company, an ordinary partnership, a limited partnership, or a limited company with multiple shareholders as provided for under the Enterprise Law. In addition, branch offices are permitted in the airline, banking, and insurance sectors.

b) Main Legal Formalities for Formation of a Company or Registration of a Branch

The Investment Promotion Law allows investors to invest in three types of investment, being: general business, concession business, and development of special economic zones and specific economic zones.

i) Investment in General Business Activities

In order for any foreign individual or entity to invest in the Lao PDR, the appropriate licenses must be obtained from various government authorities.

Investors intending to engage in general business activities need to apply for the establishment of a corporate entity in the Lao PDR with the Enterprise Registry Office of the Ministry of Industry and Commerce (MOIC) and for the issuance of an Enterprise Registration Certificate (ERC).

The minimum registered capital of an entity operating in general business and owned or partly owned by foreign investor is Lao Kip (LAK) 1 billion. The ERC should be issued within 10 working days of submission of a complete application. A slightly longer timeframe of 13 working days is applied to investments that are deemed by the government to be controlled businesses. Examples include logging, plantation agriculture, certain manufacturing industries, transportation, leasing, insurance, legal and accountancy services, education, and casinos. Controlled businesses require additional approval from the relevant government ministry before the MOIC can issue an ERC. These timeframes may take longer in practice.

At the time of submitting the application for enterprise registration, the investor must submit to the MOIC, among other documents, the proposed articles of association of the investment vehicle, in the MOIC-approved format. The approved articles should then be registered at the State Assets Management Department (SAMD) of the Ministry of Finance (MOF), along with other documentation.

The investor will also need to reserve the name of the enterprise. The application for name reservation must be lodged with the Enterprise Registry Office. The name of the enterprise must include the form of enterprise, such as “limited” “sole limited”, “public”, or “branch office”.

Enterprise registration is followed by an application to the Tax Department of the MOF for a Tax Identification Number (TIN).

ii) Investment in Concession-Related Activities or special economic zones

Specific investment approval is required under the Investment Promotion Law in the case of concession-related activities (investments that require specific authorization for the use of government property) or investments in a special economic zone (SEZ). In these cases, an investment application must be lodged with the Investment Promotion Department (IPD) of the Ministry of Planning and Investment (MPI) for the Concession Registration Certificate or at the provincial Division of Planning and Investment in order to obtain specific investment approval before the enterprise is registered with the MOIC.

While an investment application for a concession-related or SEZ activity is being considered, it may be useful for investors to meet officials of the IPD, or of the province where the project is located, in addition to officials of the relevant ministries.

An application for a concession-related or SEZ investment must be accompanied by the articles of association of the proposed investment vehicle, among other documents, and submitted to the IPD or the provincial Division of Planning and Investment.

c) Establishment of a Representative Office

A representative office is used for investors who require only a minimal presence in the Lao PDR. Representative offices are not considered to have a distinct legal personality from the parent entity. Representative offices are not entitled to conduct any commercial activities. Application to establish a representative office must be submitted to the MPI. Generally, the term of a representative office is limited to one year, renewable twice.

d) Restrictions for Foreign Investors

The MOIC, in consultation with other line ministers, periodically publishes notifications which indicate those sectors that are restricted, conditional or reserved. Reserved sectors limit the extent of foreign participation. Foreign investors are urged to consult the latest notification before considering an investment in the Lao PDR.

e) Currency/Monetary Restrictions

The Lao currency is known as ‘Kip’ and is denominated as ‘LAK’. The Lao PDR maintains a managed floating exchange rate system.

Please see Section 7p for a discussion on the restrictions on foreign currencies.

3. ACCOUNTING FINANCIAL REPORTING FOR COMPANIES AND BRANCHES OF FOREIGN COMPANIES IN THE LAO PDR

a) Financial Statements

Financial statements must be prepared in accordance with Lao Accounting Standards.

b) Audit Requirements

The Enterprise Law requires that a limited company with more than LAK 50 billion (approximately USD 6,250,000) in assets is required to be audited. There is no requirement that financial statements should be audited prior to submission to the tax authority. However, under the tax law, a company that suffers annual losses and intends to carry forward such losses should seek certification of its financial statements from the National Audit Authority or an independent audit firm.

c) Financial Year-end

The accounting year is twelve calendar months from January to December.

d) Reporting Currency

The statutory reporting currency is LAK.

4. LAW ON INVESTMENT PROMOTION

To encourage investment, the Investment Promotion Law provides investors with certain rights, protections, and incentives. Please see Section 5.

The Investment Promotion Law protects the assets and investments of foreign investors from seizure, confiscation, or nationalization; allows investors to lease land, transfer leasehold interests, and build on or make improvements to leased land; and allows investors to remit foreign currencies abroad (in accordance with other laws and regulations).

a) Obligations and Rights of Investors

The Investment Promotion Law provides various investor obligations and rights. Rights include the transfer of capital, assets and income, including profits from an investment, personal money and assets or assets of the enterprise after full payment of duties, taxes and other fees in accordance with laws and regulations.

The obligations of investors include the following:

1. To use the Lao Accounting System (LAS) for financial reporting. The use of other accounting standards such as International Financial Reporting Standards (IFRS) requires approval from MOF;

2. Full payment of duties, taxes and other fees in a timely manner;

3. Provide insurance and social security contributions for the employees to develop labor skills; to improve the technical capacity of employees; and to transfer technology to Lao partners;

4. Facilitate the establishment and operation of mass organizations in the enterprises, especially the federation of trade unions;

5. Coordinate with local authorities in business operation; to provide compensation for the impact that may be caused by the business operation; to contribute to poverty reduction of the people and community development within the project areas; and

6. Protect the environment and health of employees, and to ensure that their activities do not negatively affect public or national security.

b) Land Use Rights

Foreign investors, in addition to Lao nationals and domestic entities, can be granted land use rights or usufructs, but only under limited circumstances. Foreign investors with registered investment capital of USD 500,000 are entitled to purchase land from the government in order to build housing or office buildings, with the agreement of the relevant local authorities. However, implementation of this aspect of the Investment Promotion Law is still unclear and no discernable practice has emerged as to how or when such rights are granted.

Aside from this limited provision, foreign individuals and foreign-invested companies, including joint ventures, are restricted to leasing land from Lao citizens, or receiving land concessions from the state.

Leases from Lao citizens to foreign investors are limited to 30 years, while concessions from the state are limited to 50 years. Concessions of land in a SEZ are limited to 75 years. Embassies and international organizations are entitled to lease land or receive land concessions from the state for up to 99 years.

Foreigners who lease land or receive land concessions from the state must fulfill certain obligations, including using the land in accordance with relevant zoning objectives, protecting the environment, respecting the land use rights of neighbors, paying land lease or concession fees on time, and complying with Lao PDR law generally.

Foreign investors are entitled to own structures and developments that they build or purchase on leased land. This right is protected under the Land Law and the Investment Promotion Law. However, upon expiration of the lease or concession term, all fixtures will revert to the lessor or the state without compensation.

The property of investors is protected from nationalization or expropriation unless it is for public purposes and compensation is paid. Foreign investors are also permitted to use fixed assets on leased land as security, to sub-lease their land use rights, and to use a lease concession agreement as a capital contribution in a local entity, subject to prior approval from the state. However, upon expiration of the lease or concession, all fixtures will revert to the lessor or state without compensation.

5. INVESTMENT INCENTIVES

The Investment incentives are granted based on the activities of the investor and location of the proposed investment. Activities are divided into three (3) levels as follows:

- Level 1: Activities with top level promotion;
- Level 2: Activities with moderate level promotion; and
- Level 3: Activities with low level promotion.

Locations are divided into three promoted zones as follows:

- Zone 1: Locations where socio-economic infrastructure is sub- standard and does not facilitate investments. These zones are mainly mountainous remote areas;

- Zone 2: Zones with socio-economic infrastructure that partially facilitates investments. These zones will be classified as intermediate level of investment promotion; and

- Zone 3: Zones with good infrastructure to support investments. These zones will be classified as low level of investment promotion.

The profit tax exemption depends on the zone and level of promoted activities.

Zone 1:

- 1st level shall be entitled to a profit tax exemption for 10 years;
- 2nd level shall be entitled to a profit tax exemption for 6 years;
- 3rd level shall be entitled to a profit tax exemption for 4 years.

Zone 2:

- 1st level shall be entitled to a profit tax exemption for 6 years;
- 2nd level shall be entitled to a profit tax exemption for 4 years;
- 3rd level shall be entitled to a profit tax exemption for 2 years.

Zone 3:

- 1st level shall be entitled to a profit tax exemption for 4 years;
- 2nd level shall be entitled to a profit tax exemption for 2 years;
- 3rd level shall be entitled to a profit tax exemption for 1 year.

Profit tax exemptions and other tax incentives for concession and mining related activities may be granted, however, it will be subject to negotiation with the government of the Lao PDR and will be prescribed in a separate agreement between the investor and the government.

6. OTHER COMPLIANCE REQUIREMENTS

a) Social Security

According to the Social Security Law, contributions to the Social Security Fund are paid by both the employer and employee. A monthly deduction from gross salary of 6% is to be paid by the employer, and 5.5% by the employee. The employer will deduct the employee's contribution from the salary, and match this with its own contribution and remit the sum to the Social Security Fund. The maximum base salary on which the contribution is calculated is LAK 2 million per month, per person.

b) Work Permits and Visas

Pursuant to the "one-stop" policy, the investment authorities are authorized to grant business visas to foreign investors, and to foreign persons who wish to enter the Lao PDR for business purposes. In addition to a business visa, foreign investors are usually required to obtain a personal identification card if they plan to stay in the country for more than twelve months.

Foreign persons entering the Lao PDR to work require a labor visa, a work permit and a stay permit. Three kinds of labor visas can be obtained in the Lao PDR: three-month labor visa; six-month labor visa; or one-year labor visa. Obtaining any of these visas requires a guarantee from a company established in the country.

7. TAXATION

a) Overview

The current tax law applicable in the Lao PDR is the Amended Tax Law, which was promulgated in 2012.

b) Taxation of Companies

i. Taxable Presence

Profit tax is levied on profits of entities from their activities in the Lao PDR and foreign countries.

A non-resident company will be subject to the Lao PDR profit tax if it derives income from sources in the Lao PDR. For such companies the tax is paid by means of a withholding that is applied by the Lao enterprise that remits the income.

This withholding is calculated on a deemed profit basis. The deemed profit is the annual income multiplied by the profit ratio of each type of activity.

ii. Corporate Income Tax Rates

Resident company tax rates are as follows:

Type of Entity Company	Rate
Resident Registered Company	24%
Companies listed on the Lao Stock Exchange Market*	20%
Companies that manufacture, import and sell tobacco products**	26%

* Incentive of 5% lower rate than the normal rate can be applied for a period of four years, commencing from the date of registration, after that the regular rate shall apply.

** 2% will be contributed to the Smoking Control Fund.

Companies with a concession agreement with the Government of the Lao PDR (particularly companies in the mining and hydropower sectors) may pay a reduced rate as determined in the concession agreement.

Reduced tax rates are also available for companies investing in the special economic and specific economic zones.

iii. Withholding Profit Tax for Non-Resident Companies

The profit tax rate for a non-resident company is 24%, which is calculated on a deemed profit basis. Below are the deemed profit rate and the effective rate respectively:

Class of Income	Deemed Profile rate	Tax rate	Effective rate
Commerce Trade	5%	24%	1.2%
Manufacturing	6%	24%	1.9%
Transportation and Construction	10%	24%	2.4%
Services	20%	24%	4.8%

A Lao entity is responsible for filing a separate tax declaration and tax payment with the Tax Department within 30 days from the date of withholding such tax.

c) Taxation of Individuals

i. General

The Tax Law does not specify conditions for individuals to be considered resident for tax purposes.

Generally, foreigners working in the Lao PDR who receive their salaries in the Lao PDR or abroad must pay income tax in the Lao PDR, unless otherwise provided in a Double Taxation Agreement (DTA) between the Lao PDR and the foreigner's country of residence, unless there is an investment agreement between the Government of the Lao PDR and the employer which is approved by the National Assembly.

ii. Income from Employment – Progressive Tax Rates

Taxable Salary at each level	Basis of Calculation	Tax Rates	Tax at each level	Total tax Payable
1,000,000 LAK and below	1,000,000	0%	0	0
1,000,001 - 3,000,000 LAK	2,000,000	5%	100,000	100,000
3,000,001 - 6,000,000 LAK	3,000,000	10%	300,000	400,000
6,000,001 - 12,000,000 LAK	6,000,000	12%	720,000	1,120,000
12,000,001- 24,000,000 LAK	12,000,000	15%	1,800,000	2,920,000
24,000,001 - 40,000,000 LAK	16,000,000	20%	3,200,000	6,120,000
40,000,001 LAK and above	-	24%	-	-

Income tax on salary and remuneration is withheld monthly by the employer and is payable by the 15th of the month following the month of the salary payment. Currently there is no requirement for individuals to submit an annual personal income tax return to the Tax Department.

d) Indirect and Other Taxes

i) Value Added Tax

Value Added Tax (VAT) was introduced to the Lao PDR on 1 January 2009 and replaced the business turnover tax (BTT). The amended VAT Law No. 52/NA, dated 23 July 2014 replaces the VAT Law No. 04/NA, dated 26 December 2006. VAT is an indirect tax which is collected on the value added proportion of goods and services at all stages of production manufacturing and distribution to the provision of services and consumption. The VAT regime in the Lao PDR follows the conventional VAT system whereby inputs on purchases can be offset against outputs on sales.

The scope of VAT is applicable to individuals, organizations and legal entities, both domestic and foreign, that carry out business, manufacturing or services in the Lao PDR and which have an annual business turnover of more than LAK 400,000,000 (approximately USD 47,000). Those legal entities with an annual business turnover of less than LAK 400,000,000 can voluntarily elect to register with the VAT regime.

The standard rate of VAT for domestically sold goods and services and imports is 10%, while a 0% rate applies to exported sale of goods.

If the goods or services are for export (i.e. subject to VAT) zero-rated excess input VAT can be refunded. For the supply of goods and services within the Lao PDR any excess VAT input credits can be carried forward for offset in subsequent periods of up to six months. Upon expiration of the six month period, any remaining VAT input credits will not be deductible. The taxpayer can request the tax authority to allow further deductions in subsequent returns.

Various goods and services are exempt from VAT including:

- Non-processed agricultural products and handicrafts;
- Plants and seedlings;
- Goods to be used by diplomats, embassies and international organizations;
- Educational supplies and services;
- Deposit and lending interest of the commercial banks or financial institutions;
- Health insurance, life insurance, domestic animals insurance, and tree plantations insurance;
- Medical services; and
- Goods and services donated to aid projects.

VAT is also payable for services supplied by an offshore entity. A Lao entity that makes payments for services to a non-resident entity is required to withhold value added tax when making payment.

The tax withheld is required to be filed with the Tax Department at the same time as the monthly tax return (i.e. the 15th of the following month). If the Lao entity is not registered in the VAT regime, the tax withheld is required to be filed with the Tax Department within 30 days from the date of payment. Accordingly VAT is applied on a reverse charge basis on payments made to non-resident suppliers and can be deducted in the monthly VAT returns.

The following chart summarizes the deemed locations in connection with various types of services:

Service	Place
General services	Place of business or residence of recipient
Design, construction, maintenance repair, supervision, real estate agents, experts for property, hotel	Place where the property is situated
Rental of movable goods	Place of main use by recipient
Transport	Place where the transport is carried out
Cultural, artistic, sports, scientific, education, entertainment, organization, restaurant, catering, tourism services, loading and unloading, valuation and work on movable property, logging, extraction of natural resources	Place where the service is carried out
Telecommunications	Place of establishment of the telecommunication company
Tourism, tours	In the Lao PDR unless all elements are outside of the Lao PDR

ii) Stamp Duty

Stamp duty of LAK 10,000 must be paid when the document or the agreement is submitted for registration with the Government authorities.

iii) Registration and Notarization Fees

There are notarization and registration fees applicable to certain documents and agreements.

Notarization fees include charges of LAK 20,000 per page and service fees of LAK 35,000 per page. Registration fees depend on the value of the document agreement.

iv) Property Tax

Income from the sale-purchase of land, transfer of land use rights and land with the existence of structures is subject to income tax at 5%. A sale-purchase or transfer of property between direct relatives such as father, mother, husband, wife, and children is also exempt from income tax.

The transfer is also subject to transfer fee of 1% of the land value.

Tax on land and property varies depending on the location and the type of the land (e.g. land for construction, land for agriculture, etc.). The tax on land and property is calculated based on both the location and the size of the land or property and is imposed at an annual rate per square meter.

v) Capital Gains Tax

Profit derived from the sale or transfer of shares is subject to income tax at 10%.

vi) Withholding Tax

The following withholding taxes (WHT) are applied in the Lao PDR:

1) Dividends

Income from dividends is taxed at the rate of 10%. The payer is required to withhold tax before making payment to the payee. The tax is to be remitted to the Tax Department within 10 days of making the payment.

2) Interest

Interest payments on loans are subject to income tax at 10%. The payer of the interest must withhold the income tax at the time when making a payment. The tax is to be remitted to the Tax Department within 10 days of making the payment.

3) Royalties

Income from patents, copyright, trademarks, and other intellectual property is taxed by way of withholding. The payer of the relevant income is required to withhold tax at the rate of 5% before making payment to the payee. The tax is to be remitted to the Tax Department within 10 days of making the payment.

4) Other Income

- Income tax on income from activities undertaken by the government agencies, the Lao Front for National Construction, mass organizations, and social organizations, is 10%.
- Income tax on income from prizes, monetary or material lottery prizes valued over LAK 1,000,000 is 10%.
- Income tax on income from the leases, such as land, houses constructed items, vehicles, machinery or other assets is 10%.

vii) Lump Sum Tax

The Lump Sum Tax (also known as fixed tax) applies to small and medium-scale businesses that are not registered in the VAT system (having annual business income less than LAK 400,000,000). Tax is paid as a lump sum under a contract between the Tax Department and the taxpayer.

Fixed tax is calculated by multiplying the annual income with the lump sum tax rate. The current year fixed taxed is calculated using summaries of the annual income of the previous year as a basis of the next year's annual projected income.

In the event that it is deemed that such data is not factual, the Tax Department in collaboration with the relevant sectors may undertake an on-site evaluation to determine the business income and operations of the taxpayer.

Fixed tax shall be paid monthly, quarterly, bi-annually or annually as provided in the relevant contract.

viii) Environmental Tax

Environmental tax is a direct tax levied on individuals, legal entities, and organizations authorized to operate businesses, import or use natural resources in the Lao PDR that causes pollution to the environment and damage to health, life of humans, animals, plants, and the ecosystem.

ix) Excise Tax

Excise tax is levied on the importation or domestic supply of certain luxury goods and services. The types of goods and services that are subject to excise tax include:

- inflammable fuel;
- alcohol, beer, alcoholic beverages;

- cigarettes;
- cosmetics;
- vehicles;
- appliances, such as air-conditioners, washing machines and refrigerators;
- services relating to entertainment;
- all types of game playing devices; and
- all types of carpets.

The excise tax on these goods and services ranges from 5% to 150%. The excise tax is payable by importers and producers of taxable goods and providers of taxable services. Importers pay the excise tax at the time of importing the goods. For domestic producers and service providers the tax is declared and payable to the Tax Department by the 15th of the month following the production of the goods and the supply of the services subject to excise tax.

x) Customs and Import Duties

The Customs Law defines that all goods imported or exported are subject to duties unless exemptions are provided for by law or contained in specific government agreements.

Import and export duties must be paid before goods can be removed from customs. For companies that undertake promoted activities, import duties may be exempted for certain goods to be used in production.

The Lao PDR is using import tariffs that are aligned with the ASEAN Harmonized Tariff Nomenclature (AHTN). The rates vary from 5% to 40%.

Besides AHTN, the Lao PDR (as part of ASEAN) has free trade agreements with several other countries such as Australia, New Zealand, South Korea, China, Japan, and India.

e) Tax Administration

i) Tax Payment – Currency

The calculation and payment of taxes should be converted to LAK before making payment, using the bank exchange rate applicable on the day of calculation.

ii) Tax Payment – Due Dates

Profit tax payments must be made in four quarterly payments as follows:

- First quarter: by the 10th of April;
- Second quarter: by the 10th of July;
- Third quarter: by the 10th of October; and
- Fourth quarter: by the 10th of March of the following year.

The profit tax paid in each quarter will be considered as advance payment.

There is no extension for reporting the annual tax payable.

iii) Tax Returns – Due Dates

Profit tax return

Companies must finalize and submit annual financial statements, including balance sheet, trial balance and other documents, such as the minutes of partners or shareholders meeting regarding the use of or the distribution of dividends, to the Tax Department before the 1st of March each year.

The Tax Department will calculate the annual tax payable based on information provided in the financial statement.

Individual Tax Return

Employers should submit tax declarations of such deducted tax to the local tax authority before the 15th of the following month in order to pay income tax. There is no extension of filing date.

f) Tax Incentives

See section 5.

g) Tax Losses

Losses can be carried forward for deduction with taxable profits for up to three years.

Upon expiration of three years, any remaining losses may no longer be deducted from profits.

There is no carry back of losses in the Lao PDR.

h) Tax Consolidation / Group Relief

The Lao PDR has no tax consolidation or group relief provisions.

i) Tax Audits

The tax authorities have the right to audit the calculation and payment of taxes by taxpayers within three accounting years.

If it is deemed that there has been an incorrect tax calculation and incomplete collection, the tax authorities have the right to demand such tax and impose penalties.

j) Thin Capitalization

There are no thin capitalization rules in the Lao PDR.

k) Transfer Pricing Rules

There are no transfer pricing rules in the Lao PDR.

l) Limitations of Deductible Expenses

There are certain limitations on the deductibility of expenses. The limitations include the following:

- The cost of travel for administrative purpose can be deducted up to 0.60% of the annual income;
- The cost of entertaining guests and telephone expenses can be deducted up to 0.40% of the annual income for each type of expenses; and
- Donation support payment can be deducted up to 0.30% of the annual income.

m) Statutory Period for Holding Documents

Taxpayers are required to maintain their records for a period of 10 years.

n) Double Tax Treaties

The Lao PDR has entered into double taxation treaties with several countries, of which in force at present are the following: Thailand, China, North Korea, South Korea, Brunei, Vietnam, Malaysia, Luxembourg, and Myanmar. The Singapore treaty is signed and is pending ratification into force.

o) Anti-avoidance Rules

There are no anti-avoidance provisions in the Tax Law.

However, individuals or organizations that have violated the Tax Law, may be subject to re-education measures, fines, compensation or criminal punishment depending on the seriousness of the case, such as: failure to provide information, participate in the concealment of facts and encourage wrongdoings related to tax obligations by business persons giving or taking bribes or gifts, conspiring to appropriate government money and threatening and causing physical harm to staff and tax officials or taxpayers.

p) Foreign Exchange Controls

The list of permissible transactions in foreign currency is relatively limited. Foreign exchange transactions, including foreign-source loans, are governed by the Law on Foreign Currency. The use of foreign currencies is permitted only for limited purposes. In addition, all foreign-source loans must be approved by the Bank of the Lao PDR (BOL).

Derivative transactions such as foreign exchange and interest rate and commodities-hedging fall into a general requirement of BOL approval. However, relevant standards are vague and detailed regulations have not been promulgated. The general rule for approval of such transactions is that a legitimate non-speculative business purpose for the transaction be demonstrated.

Foreign investors are required to use the Lao PDR banking system (and domestic bank accounts) for all transactions unless BOL approval has been obtained for the use of offshore bank accounts.

Exemptions from these capital control regulations have been granted on occasion by the National Assembly and the National Assembly Standing Committee (NASC).

q) Special Exemptions

Companies that have a concession agreement with the government of the Lao PDR can have a special tax regime and various tax exemptions; particularly, companies in the mining and hydropower industries.

Companies investing in the special and specific economic zones also will be entitled to tax incentives as provided for in the regulations of each special and specific economic zone.

8. DFDL TAX SERVICES

a) Our Services

i) Tax Advisory

- International tax planning and structuring;
- Tax optimization solutions;
- Transfer pricing advisory;
- M&A and restructuring; and
- Real Estate tax and legal structuring.

ii) Compliance

- Preparation of monthly and annual tax returns;
- Personal income taxes; and
- Expatriate tax services.

iii) Customs and Free Trade Agreement

- Advice on customs duties classifications and valuations;
- Strategic Free Trade Agreement planning advice on rules of origin (ROO);
- Advice and government liaison services on market access; and
- Barriers to trade and protection of investors.

iv) Market Entry Advice

Research on market opportunities, restrictions, corporate intelligence, and background checks.

v) Due Diligence

Our services include Tax Due Diligence on target companies in the Lao PDR covering all tax and customs issues and can be tailored to suit your needs. We highlight tax risks and opportunities in acquiring businesses or companies. Additionally, we can provide pre- and post-acquisition tax structuring.

b) Our People

Key people who comprise our Lao PDR team are:

Jack Sheehan

Partner
Head Regional Tax Practice Group

Jack is a Partner and Head of the Regional Tax Practice Group. He provides advice on international tax planning, corporate tax, M&A, indirect tax, and structuring of cross border transactions. His clients range from banks and financial institutions, telecommunications, mining, oil and gas, manufacturing, aviation, service providers, and government and aid-funded projects.

Jack is regularly a speaker on international taxation in South East Asia and is the author of a number of tax publications. He is a fellow of the Association of Chartered Certified Accountants.

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Senesakoune Sihanouvong

Partner
Legal and Tax Adviser

Senesakoune is a highly experienced Lao tax lawyer. He has extensive experience in advising companies on investing in the Lao PDR. He has advised clients in sectors ranging from hydro power projects to banking and manufacturing. Senesakoune is a graduate of the National University of Laos with a Bachelor of Law in the field of Administrative Law and holds an MBA with a major in International Public Management from the Asian Institute of Thailand. He also holds a Master of Science in International Finance from CERAM Sophia Antipolis, France.

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The Essential, Up-To-Date Pocket Guide for Investors in the Lao PDR

Lao PDR Regulatory System • Accounting/Financial Reporting • Foreign Investment Law • Economic Zones • Taxation • And more

About Us

DFDL is a leading international law firm specialized in emerging markets with regional legal, tax and advisory investment expertise developed throughout the Mekong region (Cambodia, the Lao PDR, Myanmar, Thailand, and Vietnam), Bangladesh, and Singapore and a dedicated focus on South and Southeast Asia, and beyond.

With a team of over 140 local and foreign lawyers and advisers in 11 offices in Asia and collaborating firms in the Philippines and Indonesia, we provide unique value propositions and innovative solutions with particular expertise in:

- Banking and Finance
- Corporate and Commercial
- Energy, Mining and Infrastructure
- Mergers and Acquisitions
- Real Estate and Construction
- Taxation

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