Laos

A. At a glance

Corporate Income Tax Rate (%)	20 (a)
Capital Gains Tax (%)	– (b)
Branch Tax Rate (%)	20 (c)
Withholding Tax (%)(d)	
Dividends	10
Interest	10
Royalties	5
Net Operating Losses (Years)	
Carryback	0
Carryforward	5/10 (e)

(a) This tax is known as the "profit tax." Tobacco businesses are subject to tax at a rate of 22%, while mining companies are subject to tax at a rate of 35%.

(b) The tax law does not provide a specific rule for the taxation of capital gains derived from the transfer of tangible assets. Income from the sale of shares is subject to income tax at a rate of 2%.

(c) Lao income tax regulations do not contain a definition of a "permanent establishment." A foreign company may establish a branch only in certain sectors of the economy. Only a foreign bank, financial institution, insurance company or airline company may establish a branch in Laos.

(d) These are withholding taxes that are imposed on Lao and foreign legal entities and individuals.

(e) Business operators engaged in agriculture and livestock activities can carry forward losses resulting from an outbreak of diseases or a natural disaster for 10 years.

B. Taxes on corporate income

Profit tax. Companies and individuals engaged in manufacturing, trading and services are subject to profit tax on their Lao-source income. Foreign companies deriving income from Laos or entering into joint venture contracts with project owners in Laos are also subject to profit tax.

The accounts of a branch of a Lao company are consolidated with the accounts of the parent company for purposes of calculating profit tax.

Rates of profit tax. The standard rate of profit tax for business activities is 20%.

Companies in certain industries, such as hydropower, are taxed at different rates, depending on their agreement with the government of Laos.

Foreign investors may be entitled to profit tax exemptions for certain periods, depending on the activities and location of the business.

Listed companies in Laos are entitled to a reduced tax rate of 13% for a four-year period.

Lump Sum Tax. Lump Sum Tax applies to the income of individuals and small businesses with less than LAK400 million of annual turnover. The portion of turnover between LAK50 million and LAK400 million is taxed at the following rates:
- 1% for agriculture and industrial activities
- 2% for supply of goods
- 3% for supply of services

The tax is payable periodically as agreed with the tax authority on a case-by-case basis.

Capital gains. The tax law does not provide a specific rule on the taxation of capital gains arising from the transfer of tangible assets. However, income derived from sales of shares is subject to a withholding tax of 2%.

Administration. The fiscal year in Laos is the calendar year.

For resident companies and individuals compliant with accounting standards, profit tax must be paid on a semester installment basis (that is, profit tax is paid two times a year through advance payments [installments]) by 20 July of the current year and 20 January of the following year. An annual profit tax return must be submitted together with the annual financial statements before 31 March of the following year in order to recalculate total profit tax for the year. The semester installment payments are based on the final corporate income tax liability of the preceding year, the actual profit of the semester or the estimated corporate income tax mentioned in the annual tax payment plan for the current year. Any excess payment may be credited to future profit tax liability.

For companies or individuals not compliant with accounting standards and for nonresidents, the buyers of their services or goods must deduct a compulsory profit tax that is calculated based on an estimated profit, which is calculated at the following percentages, multiplied by a 20% tax rate:
- 7% of the value of the transaction, sales or turnover for agriculture and handicraft activities
- 10% for industrial and processing activities
- 15% for trade and service activities
- 30% for electric power and mining activities

The profit tax is declared and paid to the tax authority by the buyer within 10 days following the date of payment by the buyer.

Dividends. A 10% withholding tax is imposed on dividends paid.

Foreign tax relief. Laos has entered into double tax treaties with several countries (see Section F).

C. Determination of taxable business income

General. The calculation used to determine the taxable income of companies and individuals subject to profit tax depends on whether the taxpayers are compliant with accounting standards.

Taxpayers that are compliant with accounting standards determine their taxable profit by either of the following methods:
- Deducting from their annual turnover their annual tax-deductible expenses
- Deducting from their annual accounting profit their annual non-tax-deductible expenses

Taxpayers that are not compliant with accounting standards or that are nonresident in Laos must pay profit tax based on their compulsory profit (see *Administration* in Section B).

Taxable income consists of all income from available sources, such as the following:
- Income from handicraft and agriculture
- Income from the exploration of natural resources
- Income from import and export business
- Income from banking, insurance and financial activities
- Income from tourism including hotels
- Income from lottery, casino and sports activities
- Income from the provision of general services

Deductions from gross income include the following:
- General business expenses such as electricity, repair charges, salaries and wages, welfare and social security expenses, rent, interest and insurance
- Depreciation (see *Depreciation*)
- Cost of travel
- Cost of guest entertainment and telephone
- Donations and support
- Advertising

Expenses not related to business activities are not deductible. Other nondeductible expenses include the following:
- Profit tax
- Interest paid on loans from shareholders and partners (of partnerships) for capital contribution purposes
- Penalties or fines
- Golf expenses, dancing expenses, gifts and awards
- All types of provisions and reserves

Inventories. The law does not prescribe a basis for the valuation of inventory. Inventory for a tax year is valued at the lower of cost or net realizable value.

Depreciation. Depreciation for accounting persons can be calculated based on the straight-line, double-declining or unit of production method. In the year of acquisition or disposal, depreciation may be claimed for the portion of the asset that was put in use. The following are straight-line depreciation rates that are also used for tax purposes.

Assets	Annual rate (%)
Intangible fixed assets	20/50
Buildings	
Industrial	2/5
Commercial and residential	5/10
Plant and machinery	20
Motor vehicles	20
Office equipment	20
Software	20

Establishment expenses are expensed over two years.

Relief for losses. Losses can be carried forward for a period of five consecutive years. Business operators engaged in agriculture and livestock activities can carry forward losses resulting from an outbreak of diseases or a natural disaster for 10 years. Losses may not be carried back.

D. Other significant taxes

The following table summarizes other significant taxes.

Nature of tax	Rate (%)
Value-added tax	
Goods, materials and services	7
Exportation of goods to foreign countries	0
Tax on income from the lease of immovable property; payable by the recipient each time the income is received	10
Excise duty; on the domestic production, import or service value of various commodities	
Fuel	5 to 40
Alcoholic drinks	20 to 80
Soft drinks and mineral water	7
Cigarettes and cigars	42 to 57
Perfume and cosmetics	25
Motorbikes	3 to 110
Cars	3 to 102
Motorboats	25
Electrical products (televisions, cameras and musical instruments)	15
Sport related (for example, snooker, football and any game cabinet)	35
Entertainment (nightclub, disco and karaoke)	40
Internet services	2
Lottery and casino activities	30
Social security contributions; imposed on salaries of up to LAK4,500,000 million per month	
Employee	5.5
Employer	6

E. Foreign-exchange controls

The Bank of Laos determines foreign-exchange controls. Foreign investors can freely repatriate their after-tax profits (including withholding tax on dividends) and capital to other countries, subject to certain substantiation requirements.

The currency of Laos is the kip (LAK). Bank accounts may be held in other currencies.

F. Treaty withholding tax rates

	Dividends	Interest	Royalties
	%	%	%
Belarus	5/10	8	5
Brunei Darussalam	5/10	10	10
China Mainland	5	5/10	5/10
Indonesia	10/15	10	10
Korea (South)	5/10	10	5
Luxembourg	5/15	10	5
Malaysia	5/10	10	10
Myanmar	5	10	10
Singapore	5/8	5	5
Thailand	15	10/15	15
Vietnam	10	10	10
Non-treaty jurisdictions	10	10	5