Chandrawat & Partners

DOING BUSINESS IN LAOS

A comprehensive guide of doing business in Laos

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Introduction

Surrounded by China, Vietnam, Cambodia, Thailand and Burma, Laos is a mountainous country. As per Laos government's anticipation, by 2025 hydropower will become the country's biggest source of revenue. The Mekong River plays a vital role as transportation route for cargo and passengers, a source of electricity at dams, a water supply for crops, and a home to fisheries which shares a major part in the diet of the Laotian people. However, to make growth more sustainable and to increase its positive effects across society, Laos is looking to diversify its economy and create more jobs. Laos' economic freedom score of 50.3, makes its economy the 147th freest in the 2023 Index and the country has ranked 25th among 40 countries in the Asia Pacific region. Laos is among the least developed and poorest countries in Asia, but significant economic growth in the past decade has benefited the country. Challenges remain, however, and the Lao economy remains dependent on external demand for its natural resources, particularly mining, hydropower and forestry.

Economic overview

The recovery in tourism (especially from Chinese tourists returning) and an increase in cross-border trade facilitated by the Laos-China railway will both contribute to a 3.3% increase in Laos' real GDP in 2023. Early in 2023, household finances will be strained by high domestic fuel prices, elevated consumer price inflation, and a potential food scarcity, which will reduce private consumption.

The government, led by Sonexay Siphandone, the recently appointed prime minister, will continue fiscal austerity measures in the face of a debt repayment crisis. This will increase economic stability over the long term but limit the government's ability to spur stronger economic growth and provide welfare assistance to low-income households.

Foreign Direct Investment in Laos

The Lao government officially welcomes both domestic and foreign investment as it seeks to keep growth rates high and graduate to Developed Country status by 2026. The pace of foreign investment has increased over the last several years. According to Lao government statistics, mining and hydropower account for 95.7 percent of Foreign Direct Investment ("FDI") and agriculture accounted for only 2 percent of FDI in recent years. China, Thailand, France, Vietnam and Japan are the largest sources of foreign investment, with China accounting for a significant share of all FDI in Laos.

Foreign investors are typically required to go through several procedural steps prior to commencing operations. Many foreign business owners and potential investors claim the process is overly complex and regulations are erratically applied, particularly to foreigner investors. Investors also express confusion about the roles of different ministries, as multiple ministries become involved in the approval process. Foreign investors are required to obtain multiple permits, including an annual business registration from the Ministry of Industry and Commerce ("MOIC"), a tax registration from the Ministry of Finance, a business logo registration from the Ministry of Public Security, permits from each line ministry related to the investment (i.e., MOIC for manufacturing, and Ministry of Energy and Mines for power sector development), appropriate permits from local authorities, and an import-export license, if applicable. Obtaining the necessary permits can be challenging and time consuming, especially in areas outside the capital.

Advantages of doing Business in Laos

The country has experienced rapid economic growth over the past 25 years due to following reasons:

High growth country

After the Asian financial crisis Laos is growing with an impressive record of between 7% to 8%.

Low competition from multinationals

Laos is a relatively unexplored market by multinationals which is a big advantage of doing business for foreign businesses in Laos. There is not much competition from major multinationals.

Renewable energy

Laos wants to become the battery of Southeast Asia whereby; combination of a mountainous territory and an abundance of rivers makes Laos a great place to produce electricity from hydropower.

Infrastructure investments

Laos invests more than 30% of its Gross Domestic Product in infrastructures every year, apart from energy, mostly in transportation, i.e., roads and railways.

Tax free zones

Following the examples of China, Vietnam and even Thailand, Laos has established tax free zones; these are investment zones where the foreign companies are given tax holidays for as long as 50 years from corporation tax and they do not have to pay tariffs and duties on the goods they import if these are used in the production process in Laos.

Key sectors for investment

Agriculture Forestry

- Highest ratio of forest area
- Suitable land for various tree plantation
- Large stands of tropical hardwoods including teak and rosewood
- Plenty of productive land

Tourism Sector

- Eco-Tourism
- Cultural Tourism
- Agro-Tourism

Manufacturing Sector

- Lao PDR ready to be Manufacturing Base
- Logistic advantages from EWEC (Linked to the Sea)
- Low utilities and labour cost
- Special Economic Zone (Located along EWEC)
- Export – Import tax exemption.

Mining Sector

- Mining industry is underdeveloped.
- Mining sector presents numerous and potential opportunities for investment and development.
- Mineral deposits: tin, lead, zinc, iron ore, copper, gold, gypsum, lignite, sapphires etc.
- Concessions granted to foreign investors.

Types of Business

Representative office

Representative offices will typically serve as an entity for collecting market information or performing surveys before an investor proceeds with heavier investment and establishing a revenue-generating entity. Basically, these structures are limited in the types of activities it can engage in and are prohibited from conducting business activities or generating income.

Limited company

This type of entity is typically favored by investors, particularly foreign investors, however a limited company must have at least two shareholders and one director. As the name suggests the liability of the shareholders is limited to the capital invested by them. However, there are many restrictions on foreign investors about share equity with a local partner, so they opt for the limited company structure because their liability is clearly limited.

Sole limited company

Sole limited companies follow the same rules as limited companies, but the major difference is that the shareholding structure includes only a single shareholder. Further, if a regular limited company has a single shareholder during its activities, then it will be required to change its legal structure to a sole limited company.

Public limited company

To form a public limited company, the minimum capital investment required is USD 125,000. Further, it requires at least seven shareholders, three company directors and one legal representative to set up a public limited company.

Wholly owned foreign company

Many businesses which usually export goods from Laos, set up this kind of business entity. It gives 100% ownership to the foreigner.

Branch Office

Companies such as banking institutions, financial services, insurance and airlines usually set up a branch office however, the parent company decides the activities of the branch office.

Minimum Eligibility Criteria for Company Registration

Among the documentation that is required to register a company in Laos are:

- Articles of Association, which are required for every business registration.
- A Board/Shareholders' Resolution approving the proposed company's establishment (including the proposed company name and registered capital) and appointing the shareholder's representative(s) and the managing director of the proposed company.
- Contract of incorporation (if there are multiple shareholders);
- CVs of legal representatives and directors.
- Shareholder's agreement.
- In the case of a limited company, the leasing agreement is required since the company must lease a space before submitting the registration application.
- Bank statements that support the financial viability of the investor.
- The personal details of the investor include copies of the passport and resume.
- The business plan outlining the nature of the intended business and its operations.

Application for Enterprise Registration Certificate

According to the Companies Act (2015), the firm must submit the company documents, an online application and the necessary fee to the Office of the Registrar of Companies once they are ready. The application form requests information on the business, its governance, its representative office, its central place of operation, its shareholders, its share arrangement and its members.

Obtaining an operating license

All business operations in the Lao PDR must be registered as an entity. The enterprise registrar would initiate an advice letter recommending the venture to collaborate with pertinent sectors to pertain to a business operating license.

Tax registration

It will no longer be necessary for newly established firms in Laos to submit separate applications for registration with the nation's tax authorities and for receiving the 12-digit Taxpayer Identification Number ("TIN"). The action comes in response to a recent choice to eliminate the necessity that a TIN is submitted as one of the requirements for business incorporation. Businesses will instantly receive a TIN when their Enterprise Registration Certificate is issued, significantly streamlining the procedure ("ERC"). Private buyers just need to register for an ERC via the one-stop investment service, which will be combined with the Tax Revenue Information System, per the updated regulations ("TaxRIS").

Opening a bank account and issuing a Capital Importation Certificate

The Company must apply for a capital importation certificate to the Bank of Laos PDR ("BOL") within thirty (30) days following the ERC's release. Within 90 days of the ERC's issue, the Company must import 30% of its authorized capital and the remaining amount within twelve months of the ERC's release. The Company should open a Laos PDR bank account before a capital importation certificate can be issued.

How to Set up business in Laos

The two major reasons why multinationals want a company registration in Laos is the low labour cost and tax benefits. To start a new company, it is imperative to have a concrete business plan.

The general rule is that a 100 percent foreign-owned investment is accepted under Lao law. There are no restrictions on foreign investment in Laos, except as otherwise specified.
The usual timeframe for company registration in Lao People's Democratic Republic (PDR) is approximately two to six weeks from the date of filing a completed application with the Ministry of Industry and Commerce ("MOIC").

Applying for and obtaining an industry-specific operating licence is an independent process from company establishment and may take approximately two to six months after the enterprise registration certificate has been issued, depending on the industry and the responsiveness of the relevant ministry.

Process for company registration in Laos
The incorporation of a company has the following steps:

- The person should apply for a Name Reservation Certificate. It will take one day.
- Then, apply for an Enterprise Registration Certificate ("ERC"). This will take 10 days.
- After obtaining the ERC, the person should apply for an operating licence from the relevant ministry. It will take 30 days.
- The next step would be to apply for a Tax Registration Certificate ("TRC"). This will take two weeks, but it can be done simultaneously with the previous procedure.
- After TRC, the person should obtain approval of company sign. This will take 5 days but can be done simultaneously with the previous procedure.
- Then, prepare a company seal. This will take 45 days.
- And finally, register the workers for social security. This will take 7 days. No fee will be charged.

Taxation

In Laos personal income is taxed at a progressive rate from 0% to 24%, moreover, it applies to all income earned in Laos such as salary, benefits in kind and other remunerations, both for Laos people and expatriate receiving revenues from Laos PDR ("The Lao People's Democratic Republic") or abroad regardless of the length of their employment and stay in Laos.

Individuals Tax

In Laos, all sole traders and independent contractors are liable for personal tax on their business income derived in Lao PDR. Both Laos and foreign individuals earning income in Laos in the form of salaries, benefits in kind, and other remuneration are subject to personal income tax.

Expatriates who work in Lao PDR and obtain remuneration in Lao PDR are liable to pay personal income tax, regardless of the period of their employment and stay in Lao PDR.

Following are the annual personal income tax rates available for both Lao and foreign individuals:

- Income from LAK 0 to 3,600,000 is liable to tax at a rate of 0% of annual income;
- Income from LAK 3,600,001 to 8,000,000 is liable to tax at a rate of 5% of annual income;
- Income from LAK 8,000,001 to 15,000,00 is liable to tax at a rate of 10% of annual income;
- Income from LAK 15,000,001 to 25,000,000 is liable to tax at a rate of 15% of annual income;
- Income from LAK 25,000,001 to 40,000,000 is liable to tax at a rate of 20% of annual income; and
- Income from LAK 40,000,001 and above is liable to tax at rate of 24% of annual income.

Corporate income taxes

Profit tax ("PT")

In Laos, The rate of Profit Tax of 24% applies to businesses of local and foreign legal entities, except those which are listed in the securities market, which shall enjoy a reduction of 5%from the normal rate for the period of four years from the date of listing. After that period, the normal rate defined under this law shall be applied;

The rate of 26% applies to legal entities producing, importing and distributing tobacco products, of which 2% is given to the Tobacco Control Fund as stipulated in the article 46 of the Tobacco Control Law;

Accounting standards

The Law on Accounting of 2013, the Law on Independent Audit of 2014, and the Enterprise Law of 2016 form the statutory framework for accounting, auditing and corporate financial reporting in Laos.

Accounting Framework

Under the Law on Accounting, public interest entities ("PIEs"), which are banks and financial institutions under the control of the Bank of Laos, insurance companies, securities companies and public companies, are required to apply International Financial Reporting Standards (IFRS) when preparing financial statements. Non-public interest entities ("non-PIEs"), which comprise large-, medium- and small- sized enterprises, apply the Laos Financial Reporting Standards for Non-Public Interest Enterprises ("LFRS for Non-PIEs"), which are based on the 2009 version of the IFRS for SMEs, to prepare their financial statements. Under the Law on Accounting, the Ministry of Finance ("MoF") is responsible for setting accounting standards.

Auditing Framework

Two laws, the Law on Independent Audit and Enterprise Law, establishes statutory audit requirements in Laos. Under the Enterprise Law, limited liability companies above a threshold (more than 50 billion kip in assets ~USD 6.2 million) are required to be audit. In accordance with the Law on Independent Audit, mandatory audit is required for all PIEs as indicated above, foreign enterprises, state-owned enterprises, and external loan and grant projects. Under the Law on Independent Audit, the MoF is responsible for setting auditing standards, which are the International Standards on Auditing ("ISA"). The ISA as issued by the IAASB in English have legal status, and therefore the most recent version of the standards is in force.

Employment Policies in Laos

The main piece of legislation governing employment relationships is the Labour Law No.43/NA of 24 December 24, 2013. Other regulations and decrees are attached to this law and include more details or frame specific rights, such as minimum wages and contributions to the social security fund by employees and employers. The Labour Law applies to every legal entity established in Laos and to employers and employees working in Laos.

The Labour Law prioritises hiring Lao nationals. However, foreign employees can be hired if the requirements for doing so are fulfilled and after approval has been granted from the Ministry of Labour and Social Welfare.

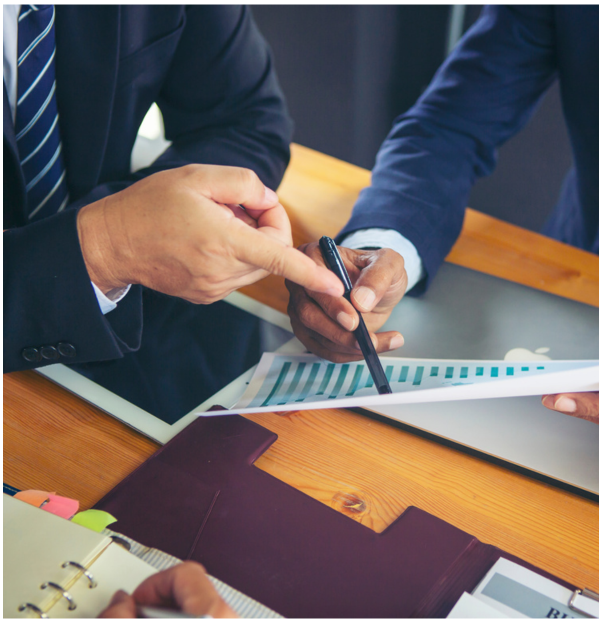
A foreign employee working in Laos must have a work permit, requiring an employer to apply seeking quota approval from the Ministry of Labour and Social Welfare to bring in the foreign employee. When the quota is approved, the employer must request a work permit within one month. A work permit will then be issued to the foreign employee at the same time as their business visa. In addition to their work permit, a foreign employee requires a stay permit card to be issued by the Ministry of Public Security.

There is no general mandatory management representation for employees in relation to corporate transactions. However, the Labour Law provides that if an employer wants to reduce the number of its employees to improve work within a labour unit, or for economic reasons, the employer must first consult with the employees' representative or most of the employees, and then report the reduction to the Labour Administration Authority before proceeding with it.

How can we help?

Our experts can provide valuable assistance to businesses looking to expand or establish operations in Laos. The assistance will include-

Market Viability Assessment: Our team can conduct feasibility studies to evaluate the viability and potential risks of entering a new market. Assess factors such as market demand, regulatory environment, infrastructure, labor force and competitive analysis to help businesses make informed decisions.



Entry Strategy: Our professionals help in developing an entry strategy tailored to the specific needs and goals of the business. Identify the most suitable market entry options, such as joint ventures, partnerships, acquisitions or direct investment, based on the client's resources, capabilities and risk appetite.

Industry Compliance: Advise businesses on industry-specific regulations, permits, licenses and certifications they may need to operate legally and meet local standards.

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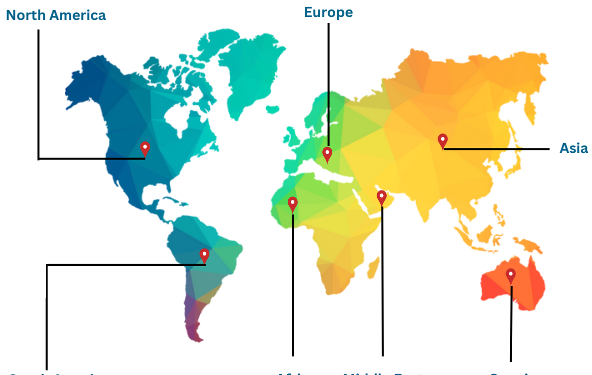

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