

Personal taxation in in East Timor

Basis – Income tax is imposed on individuals and wage income tax is imposed on taxable wages received by an employee in respect of employment in Timor-Leste.

Individuals performing services in respect of petroleum operations in the Joint Petroleum Development Area are subject to personal taxation under one of four distinct petroleum tax regimes.

Residence – An individual is resident in Timor-Leste if (i) he/she is present in Timor-Leste for at least 183 days in total during a calendar year and has a permanent place of abode in Timor-Leste, or (ii) is an employee of the government of Timor-Leste.

Filing status – Each individual taxpayer must file a separate tax return.

Taxable income – Taxable income comprises earnings from employment and property income. Property income includes dividends, interest, royalties, annuities, rent, or other amounts arising from the provision, use or exploitation of property.

Capital gains – No

Deductions and allowances – No

Rates – Resident individual taxpayers are subject to wage income tax (WIT) at 10% on earnings in excess of USD 500, the first USD 500 is not taxable. For non-resident individuals, a flat rate of 10% applies on all earnings.

The obligation to withhold WIT rests with the employer. An employee in receipt of wages that have been correctly subject to WIT has no further liability to income tax on the income.

The employer is required to issue a WIT certificate to each employee at the end of the tax year in respect of any WIT withheld from payments during that year.

Other taxes on individuals:

Capital duty – No

Stamp duty – No

Capital acquisitions tax – No

Real property tax – No

Inheritance/estate tax – No

Net wealth/net worth tax – No

Social security – Individuals are subject to the social security contributory scheme. The employee's contribution is payable at 4% of the contributory incidence basis and is withheld by the employer.

The social security scheme also covers foreign employees who work temporarily in Timor-Leste. However, where they continue to be covered by and contribute to a social security

system in another country, such employees are exempt from social security contributions in Timor-Leste for 10 years.

Compliance for individuals:

Tax year – The tax year is the calendar year.

Filing and payment – An annual income tax return must be filed and any income tax due paid by 31 March following the end of the tax year.

There should be no requirement to file a return where an individual's only taxable income consists of earnings from which the employer has withheld the appropriate amount of wage income tax.

Penalties – Penalties and interest may be applied for late filing, failure to file, underpayment of tax, failure to exercise due care and tax evasion.

Value added tax:

There is no VAT or similar tax in Timor-Leste.

Source of tax law: Taxes and Duties Act, Decree Law No. 8 of 2008.

Tax treaties: Timor-Leste has signed an income tax treaty with Portugal and the Timor Sea treaty with Australia.

Tax authorities: Ministry of Finance, DGRC (www.mof.gov.tl/taxation)

Please contact TradeInvest for further information and we can help you work through corporate taxation processes in Timor-Leste.

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