Recent developments:
For the latest tax developments relating to Timor-Leste, see Deloitte tax@hand.

Investment basics:
Currency – United States Dollar (USD)
Foreign exchange control – No
Accounting principles/financial statements – International Financial Reporting Standards (IFRS) must be used for recording and measurement of net profit after tax (NPAT). However, there is no legal requirement to prepare and compile financial statements using IFRS, unless the statements must be filed with the Timor-Leste Ministry of Finance (MOF).
Principal business entities – These are the private limited liability company (Lda), public limited company (S.A.), partnership and branch of a foreign entity.

Corporate taxation:
Residence – A legal person is considered resident in Timor-Leste where it is incorporated, formed, organized, or established in Timor-Leste.
Basis – Timor-Leste resident companies are taxed on worldwide income. Nonresident entities generally are taxable only on Timor-Leste-source income.
Taxable income – Taxable income generally corresponds to accounting income. The major exceptions relate to the income tax treatment of: depreciable assets; intangibles; inventory; interest expense; provisions and reserves; payments in respect of which withholding tax was not properly withheld; dividends; donations and gifts; fines and penalties; expenses charged or incurred for the personal benefit of shareholders, partners or members; excessive payments/compensation payments between associates, as consideration for work performed; expenditure/losses to the extent recoverable under a policy of insurance or contract of indemnity; assets (including cash) received by a legal person in exchange for shares or capital contributions and income of an approved pension fund.
In addition, certain income items that are subject to final withholding tax are excluded from taxable income.
Petroleum operations are subject to different tax rules under one of four distinct petroleum tax regimes.
Taxation of dividends – Dividends from Timor-Leste companies are exempt income for Timor-Leste residents and are not tax-deductible for the payer.
Capital gains – Gains arising from the alienation of assets are subject to the 10% corporate income tax rate. No distinction is made between revenue gains or capital gains.
Losses – Tax losses may be carried forward indefinitely to offset against future assessable income provided that a “continuity of ownership” (more than 50%) or a “same business test” is satisfied. The carryback of tax losses is not permitted.
Rate – The corporate income tax rate is 10% (excluding amounts that have been subject to final withholding tax).
Surtax – No
Alternative minimum tax – No
Foreign tax credit – Timor-Leste resident companies are entitled to a credit for any foreign income tax paid to the extent of the Timor-Leste income tax otherwise payable on the income.
Participation exemption – No
Holding company regime – No
Incentives – A company investing in Timor-Leste may be eligible to apply for a private investor certificate under the private investment laws. The holder of a private investor certificate is eligible for certain exemptions including exemption from income tax and other indirect taxes for the first five, eight or 10 years of their investment depending on the location of the investment.

Withholding tax:

Dividends – Timor-Leste sourced dividends paid to nonresidents are subject to 10% withholding tax.

Interest – No

Royalties – A 10% withholding tax rate applies on royalties paid to residents and nonresidents.

Technical service fees – No

Branch remittance tax – No

Other – Withholding tax is imposed on payments for the following services to both residents and nonresidents: construction or building activities - 2%; construction consulting services - 4%; air or sea transportation services - 2.64% and mining or mining support services - 4.5%. A 10% withholding tax applies to payments for the rental of land and buildings.

All other payments to nonresidents with no permanent establishment in Timor-Leste are subject to a 10% withholding tax where the payment is not for services identified above.

A withholding tax certificate must be issued to the recipient by the last business day in February following the tax year-end detailing the tax withheld from payments during the year.

Other taxes on corporations:

Capital duty – No

Payroll tax – No

Real property tax – No

Social security – Employers are required to pay a monthly contribution towards an employee’s social security at a rate of 6% of the “contributory incidence basis.” The employer must submit a monthly social security declaration for each individual employee together with a summary declaration for all employees by the 10th day of the following month.

Stamp duty – No

Transfer tax – No

Other – Sales tax at a rate of 2.5% is imposed on the value of taxable goods imported into Timor-Leste.

Services tax at 5% applies where monthly turnover from certain designated hotel services, restaurant and bar services, and telecommunication services exceeds USD 500.

Import duty applies at 2.5% on the custom value of goods imported into Timor-Leste, subject to certain exemptions.

Excise tax applies at varying rates to goods manufactured in Timor-Leste and to imported goods.

Anti-avoidance rules:

Transfer pricing – No

Thin capitalization – No

Controlled foreign companies – No

Disclosure requirements – No

Compliance for corporations:

Tax year – The tax year is the calendar year; however, a taxpayer may apply to use an alternative tax year.

Consolidated returns – Companies are assessed to income tax on a stand-alone entity basis and there are no provisions to aggregate income or offset losses of associated companies.

Filing requirements – Taxpayers are required to file an annual income tax return and pay any income tax due by the last day of the third month after the end of the tax year.

Taxpayers with annual turnover of at least USD 1 million must make monthly instalment payments of income tax of 0.5% of the total monthly turnover. The installments are payable by the 15th day after the end of the month to which they relate. Taxpayers with annual turnover of less than USD 1 million are required to make quarterly payments of tax.

Any withholding tax or wage income tax withheld, and service tax payable must be remitted on a monthly basis by the 15th of the following month and the relevant monthly remittance forms must be submitted to the Directorate General of Revenue and Customs (DGRC) by the same date.

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

Rulings – A public ruling issued by the DGRC on his interpretation of the legislation is binding on the Commissioner/Directorate General and the DGRC.

The Commissioner may issue a private ruling to a particular taxpayer that is binding on the Commissioner/Directorate and the DGRC.
**Personal taxation:**

**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 nonresident 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.

**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

**Contact:**

Gaurav Sareen (gsareen@deloitte.com.au)
Joanna Blair (jblair@deloitte.com)
Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited ("DTTL"), its global network of member firms, and their related entities. DTTL (also referred to as "Deloitte Global") and each of its member firms are legally separate and independent entities. DTTL does not provide services to clients. Please see www.deloitte.com/about to learn more.

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte's approximately 286,000 people make an impact that matters at www.deloitte.com.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms or their related entities (collectively, the "Deloitte network") is, by means of this communication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.

© 2019. For information, contact Deloitte Touche Tohmatsu Limited.