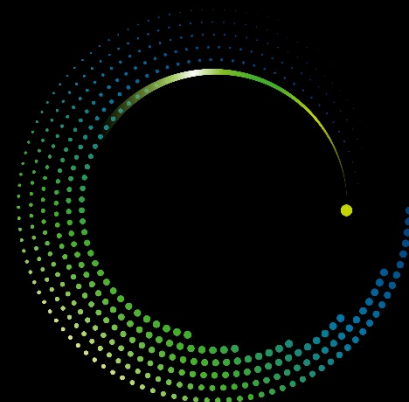


International Tax Timor-Leste Highlights 2024

Updated January 2024



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: There are no foreign exchange controls.

Accounting principles/financial statements: International Financial Reporting Standards (IFRS) must be used for recording and measurement of net profit after tax. 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.

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

| Rates | |
|---------------------------|-----|
| Corporate income tax rate | 10% |
| Branch tax rate | 10% |
| Capital gains tax rate | 10% |

Residence: A legal person is considered resident in Timor-Leste if 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. Branches are taxed in the same way as subsidiaries.

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.

Unique and specific petroleum tax regimes apply to each individual oil field area within the Timor-Leste jurisdiction.

Rate

General

The corporate income tax rate is 10% (excluding amounts that have been subject to final withholding tax).

Surtax

There is no surtax.

Alternative minimum tax

There is no alternative minimum tax.

Global minimum tax (Pillar Two)

Timor-Leste has not committed to implementing rules that generally are in line with the global anti-base erosion (GloBE) or “Pillar Two” model rules published by the OECD/G20 Inclusive Framework on BEPS that are designed to ensure a global minimum level of taxation of 15% for certain multinational enterprise groups.

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 derived 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; however, if there is a change of more than 50% in the underlying ownership of the company, tax losses may only be utilized if the incoming shareholder carries on the same business, and does not engage in any new business activities until the carried forward losses have been fully deducted. The carryback of tax losses is not permitted.

Foreign tax relief: Timor-Leste resident companies are entitled to a credit for any foreign income tax paid up to the amount of Timor-Leste income tax otherwise payable on the income. There is no deduction or carry forward of any excess foreign tax credit.

Participation exemption: There is no participation exemption.

Holding company regime: There is no holding company regime.

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 an exemption from income tax and indirect taxes for the first five, eight, or 10 years of its investment, depending on the location of the investment.

Compliance for corporations

Tax year: The tax year is the calendar year.

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

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

Taxpayers with annual turnover in excess of USD 1 million must make monthly installment payments of income tax equal to 0.5% of the total monthly turnover. The installments are due by the 15th day after the end of the month to which they relate. Taxpayers whose annual turnover for the previous tax year does not exceed USD 1 million must make quarterly installment payments of tax for the year. The amount of each quarterly installment is 0.5% of the taxpayer's total turnover for the quarter.

Any withholding tax or wage income tax withheld and service tax payable must be remitted on a monthly basis by the 15th day of the following month and the relevant monthly remittance forms must be submitted to the Autoridade Tributaria Timor-Leste (ATTL) 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 ATTL is binding on the Commissioner of Tax Authority and the ATTL. The commissioner may issue a private ruling to a particular taxpayer that is binding on the commissioner and the ATTL.

Individual taxation

| Rates | | |
|---------------------------------|-----------------------|------|
| | Taxable income (USD) | Rate |
| Wages | Up to 500 per month | 0% |
| | Over 500 per month | 10% |
| Taxable income other than wages | Up to 6,000 per annum | 0% |
| | Over 6,000 per annum | 10% |
| Capital gains tax rate | | 10% |

Residence: An individual is resident in Timor-Leste if the individual is (i) present in Timor-Leste for at least 183 days in any 12-month period that commences or ends during the year and has a permanent place of abode in Timor-Leste, or (ii) an employee of the government of Timor-Leste.

Basis: Income tax is imposed on an individual's gross income, and wage income tax (WIT) is imposed on taxable wages received by an employee in respect of employment in Timor-Leste.

Individuals performing services in respect of petroleum operations are subject to separate taxation under one of the unique and specific petroleum tax regimes that apply to each individual oil field area within the Timor-Leste jurisdiction.

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.

Rates: Resident individual taxpayers are subject to WIT at a rate of 10% on earnings in excess of USD 500 per month (the first USD 500 per month is not taxable). A 10% rate applies to other income in excess of USD 6,000 per annum (the first USD 6,000 per annum is not taxable). For nonresident individuals, a flat rate of 10% applies on all income.

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 amount received. 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.

Capital gains: Capital gains are taxed at a flat rate of 10%.

Deductions and allowances: There are no personal deductions and allowances.

Foreign tax relief: Timor-Leste resident individuals are entitled to a credit for any foreign income tax paid up to the Timor-Leste income tax otherwise payable on the income.

Compliance for individuals

Tax year: The tax year is the calendar year.

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

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 WIT.

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

Rulings: A public ruling issued by the ATTL is binding on the Commissioner of Tax Authority and the ATTL. The commissioner may issue a private ruling to a particular taxpayer that is binding on the commissioner and the ATTL.

Withholding tax

| Rates | | | | |
|------------------------|------------------|-------------------|---------------------|-------------------|
| Type of payment | Residents | | Nonresidents | |
| | Company | Individual | Company | Individual |
| Dividends | 0% | 0% | 10% | 10% |
| Interest | 0% | 0% | 10% | 10% |
| Royalties | 10% | 10% | 10% | 10% |

Dividends: Dividends paid to a resident are not subject to withholding tax. A 10% withholding tax applies to Timor-Leste source dividends paid to nonresidents.

Interest: Interest paid to a resident is not subject to withholding tax. A 10% withholding tax applies to interest paid from Timor-Leste source income to nonresidents.

Royalties: A 10% withholding tax applies to royalties paid to both residents and nonresidents.

Fees for technical services: Fees for technical services paid to a resident are not subject to withholding tax. A 10% withholding tax applies to fees for technical services paid to nonresidents.

Branch remittance tax: There is no branch remittance tax.

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

All other payments of Timor-Leste source income 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 following the tax year end detailing the tax withheld from payments during the year.

Anti-avoidance rules

Timor-Leste does not have transfer pricing, interest deduction limitation, controlled foreign company, or anti-hybrid legislation, or a general anti-avoidance rule. There are no economic substance or disclosure requirements, and no exit taxes.

Value added tax

There is no VAT or similar tax in Timor-Leste (but see the sales tax description under “Other,” below). Petroleum operations are subject to different tax rules.

Other taxes on corporations and individuals

Unless otherwise stated, the taxes in this section apply both to companies and individuals and are imposed at the national level.

Social security contributions: Individual employees are subject to the social security contribution scheme. 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. The employee’s contribution is payable at 4% of the contributory incidence basis and is withheld by the employer.

The social security contribution 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 jurisdiction, such employees are exempt from social security contributions in Timor-Leste for 10 years.

Payroll tax: There is no payroll tax.

Capital duty: There is no capital duty.

Real property tax: There is no real property tax.

Transfer tax: There is no transfer tax.

Stamp duty: There is no stamp duty.

Net wealth/worth tax: There is no net wealth tax or net worth tax.

Inheritance/estate tax: There is no inheritance tax or estate tax.

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.

Tax treaties: Timor-Leste has concluded a tax treaty with Portugal.

Tax authorities: Autoridade Tributaria Timor-Leste (ATTL)

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