



VIII CONSTITUTIONAL GOVERNMENT

Proposed Tax Law

TAX LAW

Explanatory Memorandum

Transfers from the Petroleum Fund represent the majority of revenues in the General State Budget. Since the inception of the Petroleum Fund, the percentage of revenue originating from Petroleum Fund transfers has fluctuated between 60% and 90% of total revenue. Although in the two most recent years, the revenue from transfers from the Petroleum Fund has been below 60%, this in itself does not represent a reduction in the dependence of the General State Budget on this type of revenue, since this results from changes in the budgeting of the management balances and the increase in revenue from Social Security, which although counting towards total revenue, does not finance Central Government expenditures.

In the first years after the creation of the Petroleum Fund, most of the Fund's revenue came from taxes on petroleum activities. However, with declining oilfield revenues, the Fund now relies on its financial investments for most of its revenue. It is currently projected that continued withdrawals above the Estimated Sustainable Income of the Petroleum Fund will deplete the Petroleum Fund by 2035. According to current forecasts, Timor-Leste is expected to face a fiscal cliff by 2035, with the General State Budget showing a deficit of US\$2.3 billion.

In this sense, Law no. 8/2022, of June 15th, which approved the Great Options of the Plan for 2023, identified the need to diversify the sources of financing of the General State Budget, with the increase of tax revenues, increasing the tax base, adopting more modern taxes and reviewing tax rates to, among other things, achieve progressivity in the tax burden.

To this end, the aforementioned law provides, in item 14.2.7, for the continuation of the Tax Reform and, among other diplomas, the approval of a new Tax Law.

Since the entry into force of Law no. 8/2008, of June 30, the Tax Law has been amended only once, by Law no. 5/2019, of August 27, and only with respect to the special provisions applicable to the taxation of oil and gas, in order to reflect the international commitments made under the Maritime Boundary Treaty, signed between the Democratic Republic of Timor-Leste and Australia on March 6, 2018.

It is therefore important to carry out a reform of this legislative framework, while safeguarding, as far as possible, the advantages arising from the stability of the tax system.

From the outset, it is important to preserve the objectives underlying the drafting of the Tax Law, namely its declared intention to ensure a simple tax system that is easy to apply by taxpayers and the State, to keep the tax burden at levels compatible with the economic and social reality of the country, and to prioritize the neutrality of the tax system, so as not to make it the determining reason for economic or investment options, replacing market forces and competition.

These are fundamental options that continue to be legitimate and that, as far as possible, should be maintained without disruptions that disturb the expectations of those who work and invest in Timor-Leste.

Taking all these aspects into consideration, the present legislative initiative aims to meet three main objectives: i) increase and diversify the sources of tax revenue, ii) ensure the effective capacity to collect tax revenue, and iii) improve technical aspects of the current Tax Law.

I

In relation to the increase and diversification of sources of tax revenue, a first step is taken in the sense that taxation is no longer exclusively levied on income, but also on assets, thus ensuring the social function of property and implementing the recommendations in this regard that have been addressed to Timor-Leste by several specialized international organizations.

For this purpose, a circulation tax and a tax on the acquisition of real rights over real estate are created.

Every year, the State spends money on the construction and maintenance of road infrastructures which, although indirectly serving the entire population, mainly and directly serve the circulation of automobiles, which require greater road width, cause greater wear and tear on the sidewalks, and also have particular safety requirements.

Under the current model, cars are only taxed via customs duties when they are imported. However, government spending on the construction and maintenance of road infrastructure is of a permanent nature.

Thus, with the creation of the new circulation tax, it is intended to introduce an annual tax on the ownership of all vehicles, for the acquisition of which the assets of their owners are often channeled.

In this way, the increased duty of car owners to finance the major expenses to which they give rise will become effective on a periodic basis, other categories of vehicles remaining outside the scope of the tax (namely motorcycles and non-motorized vehicles).

The tax on acquisitions of rights in rem on immovable property is aimed at taxing the acquisition of immovable property, especially contracts for the purchase and sale of immovable property or the establishment of surface rights.

According to article 809 of the Civil Code, the contract of purchase and sale of real estate is only valid if concluded by public deed. The Notaries' Legal Regime, approved by Decree-Law no. 3/2004, of February 4, and altered by Decree-Law no. 24/2009, of August 26, also foresees other acts of transmission of rights in rem over real estate subject to a public deed.

At this time, the Land and Property Commission is already effectively functioning, and the Land Registration Code, approved by Decree-Law n.º 14/2022, of the 6th of April, is already in force.

The aim of this new tax is to ensure a greater contribution from property purchasers in financing the structures of the rule of law that allow the enjoyment and exercise of the respective rights in rem, especially the right of ownership. In turn, for the State, the aim is to create a financial incentive to ensure an adequate capacity building of the public services responsible for the formalization of the legal trade in real estate.

Both the circulation tax and the tax on the acquisition of rights in rem in immovable property are taxes on assets that are simple to implement and administer and, although initially they result in modest forecast revenues, they may later be refined as the economy itself becomes more formalized and the public authorities become more familiar with their administration.

However, the identified need to increase and diversify the sources of tax revenue also involves the taxes currently in force.

The tax on wages is integrated in the income tax, in order to ensure a greater identity of treatment between such income and income from business activity, according to a principle of neutrality that favors a fairer application of the new principle of progressivity.

II

New tax brackets are introduced, with increasing tax rates, starting from the national minimum wage. In this way, even with a minimum and eminently symbolic level of taxation, the aim is to generalize the duty of all citizens to pay taxes, and the respective duty to contribute to meeting the financial needs of the State, to the extent of their respective possibilities.

However, the principle of progressivity is also underpinned by a concern for social justice and the correction of inequalities in the distribution of wealth and income. Thus, in light of the rates currently in force, taxation will be reduced for lower income brackets, taxation of middle income brackets will be maintained and taxation of higher income brackets will be increased, placing a heavier burden on people with greater tax capacity.

This framework will also be applicable to business income, which is often carried out by individuals or single-member companies, and which should be taxed in similar terms to income from employment, in accordance with the above-mentioned principle of neutrality of

the tax system. As regards other commercial companies, whose income from business activity will also be taxed progressively, the possibility of tax planning using income segmentation in separate corporate structures is mitigated by the new administrative measures to combat abusive tax planning, on the one hand, and by the fact that the maximum tax bracket is not high enough to make the creation and maintenance of such structures financially worthwhile.

In fact, the highest rate of taxation is set at 15%, which is an increase over the current income tax rate, but still corresponds to the minimum threshold of fair taxation as defined in the GloBE rules (Global Anti-Base Erosion Rules) of the Organization for Economic Cooperation and Development.

The taxation of property income, namely interest, royalties and rents, gambling prizes and winnings, and income earned in Timor-Leste by non-residents is raised to this rate, which continues, as until now, to be taxed at a fixed and definitive rate.

Finally, the income-accretion principle is explained, under the terms of which any increase in economic capacity is subject to income tax, as well as the possibility of taxation on illicit income or acts, which will allow tax to be levied on the exercise of any activity, even if it is not duly registered, authorized or licensed.

II.

In order to ensure an effective tax revenue collection capacity, the withholding tax mechanism on business income is generalized. As regards such income, withholding tax is no longer applied only to certain services (especially in the construction and transport areas), and is now applied, in addition to wages, to all payments for the sale of goods or provision of services made within the scope of business activity.

To ensure the neutrality of this mechanism, the withholding tax is complemented by a self-retention mechanism by the taxpayers themselves, for the sales of goods and services whose payers are not obliged to withhold tax (namely individuals and small business entities, whose accounting follows the cash basis of accounting).

With regard to business income earned by residents or non-residents with a permanent establishment, withholding tax will now, as a rule, have the nature of an advance tax on the tax due at the end of the tax year (i.e. the nature of an advance payment of the tax to be assessed by the taxpayer at the end of the tax year). In coherence, the current income tax instalment levied on turnover is eliminated, and the taxpayer is assured of the offsetting or refund of the excess withholding tax.

The proposed generalization of the withholding tax mechanism is accompanied by a rule to fight the informal economy, under the terms of which only expenses that have been duly subject to withholding tax may be deducted from taxable income.

In this way, the aim is to ensure the co-responsibility of economic operators for the fulfillment of their tax obligations, safeguarding the limited means of the tax administration to individually verify compliance with the law by all economic operators.

Such a rule has the advantage of making less necessary the introduction of limits to re-integrations and amortizations that were considered in previous phases of the drafting of the legislation, and that would bring to the legislation, to the economic operators, and to the tax administration itself, an additional level of complexity that was considered unnecessary. However, on the other hand, a limit on the deductibility of tax losses from previous years up to a maximum of five years is introduced.

Also with a view to ensuring an effective tax revenue collection capacity, alternative mechanisms are created for determining the taxable income, namely the creation of an indirect method taxation regime, which will allow an estimate to be made of the taxable income when it is not possible to determine the actual taxable income (for example, when the taxpayer does not file an income tax return or systematically presents tax losses), and the introduction of a general anti-abuse rule, which will make it possible to disregard deals carried out artificially with a view to obtaining tax advantages.

In the same vein, and recognizing that the State's financial interest may, in certain circumstances, prevail over the right of individuals to their private lives, it will now be possible, in the cases specifically provided for, to access a taxpayer's bank information and documents, and to include taxpayers with large tax debts on a public list of debtors, in order to encourage the voluntary settlement of defaults.

With the aforementioned aim of combating the informal economy, a ban on cash payments above certain amounts is introduced, and the tax identification number is made compulsory and universal. To this end, the tax registration of all taxpayers and economic operators is encouraged, and the withholding tax rate applicable to those who do not have a tax identification number is increased.

Finally, the powers of the tax authorities to act in relation to situations of non-compliance that continue over time are strengthened: i) with the creation of a credit privilege over the debtors' assets, which prevails over other third-party claims; ii) with the introduction of new rules of subsidiary or joint and several tax liability (which allow tax to be levied on persons who, under the circumstances provided by law, should be considered jointly and severally liable for the failure to deliver the tax, namely directors and managers of commercial companies); and, iii) with the introduction of elementary rules derogating from the principle of confidentiality of tax information, which until now made it particularly difficult for the tax administration to cooperate with various public entities.

As previously stated, the draft bill at issue here was prepared closely following the legal framework defined in the current Tax Law, which, despite the innovations introduced in 2008, contains structural aspects that have been uncontroversial since the United Nations transitional administration. This is a legal framework which is socially and administratively consolidated, and which should be preserved.

As such, it was deliberately chosen not to introduce legal changes that, due to their excessive complexity, would worsen the gap between legislation and reality, or that would cause unnecessary disruptions in the compliance systems in place. Priority was therefore given to the practical implementation of this new law, especially at the administrative level.

However, since the current Tax Law came into effect, needs for reform or technical improvement have been specifically identified and should be considered.

Thus, in terms of technical improvements to the current Tax Law, a general part has been introduced to address aspects for which the rules of tax procedure currently in force, provided for in UNTAET Regulation No. 18/2000 of 1 July, as amended, only provide a general response.

In addition to several aspects already indicated above, this general part provides legal coverage for the cooperation mechanisms of the tax administration with taxpayers, ensuring predictability and transparency in its actions; for example, with the express legal empowerment for the issuance of binding information or generic guidelines for the implementation of the new Tax Law.

As for the rest, there are aspects that, although not new, needed to be explained. Thus, and among several other legal clarifications, i) it has been made explicit that the State and other public services, whether personalized or not, are obliged to comply with the tax obligations foreseen in relation to other persons; ii) it has been made explicit that withholding at source is not an autonomous category of tax, but rather a mechanism for paying the tax, which the payer makes instead of the beneficiary of the payment in question iii) it has been made clear that holders of tax benefits for investment are still obliged to comply with their reporting obligations, namely to declare exempt income, even when they have no tax to pay; and iv) specific legal provisions have been introduced on the scope and the way in which various matters of an operational nature necessary for the effective implementation of the new law are to be regulated by the government, the relevant ministries and the tax authorities themselves.

However, there are technical aspects that do constitute legal innovations. For example, i) the possibility of using the alternative tax year, which is practically not being used at present and which generates various difficulties for the tax authorities in terms of operational management and monitoring of compliance with tax obligations, is eliminated; and ii) holders of higher income, even if subject to withholding tax, will now be required to file an annual income tax return, allowing greater scrutiny of compliance with their tax obligations.

On other technical aspects, in relation to the current Sales Tax, and in view of the concrete steps the Government is taking towards the introduction of a new value added tax in Timor-Leste, it was justified to eliminate the provisions that configured the sales tax as a future transaction tax, and which were never effectively implemented. However, since the remaining provisions practically equated the sales tax to customs duties on imports, with only some differences in the respective tax base, it is opted to replace the sales tax by increasing, to the corresponding extent, the rate of customs duties on imports. This is, however, a financially neutral measure, or one with insignificant financial impact for the state or the national economy.

Also eliminated is the tax on services, which is levied only on certain types of business activities, in an unjustified deviation from the above principle of neutrality of the tax system, and is, moreover, a tax of little significance to the state in terms of revenue collection. The

elimination of this tax is also a further preparatory aspect for the introduction of a new value added tax in Timor-Leste, which is expected to be applied in a more homogeneous and equitable manner to the generality of consumption of goods and services.

On the other hand, it was considered the entry into force of the new Mining Code, approved by Law No. 12/2021, June 30, namely its articles 114 and 154, which provide for the creation of the Mining Fund, to which all revenues from mining activities should be channeled, according to principles of transparency and revenue preservation for future generations. It is understood that this includes not only the royalties created in the Mining Code, but also tax revenues, and it is understood that these should cover not only tax revenues directly from the conduct of mining activities themselves, but also the indirect ones, based on the principle of the source of income, it is indeed necessary to introduce in the tax legislation the corresponding implementing provisions. In addition to this aspect, other specificities of the taxation of income from mining activities are also taken into account.

Finally, matters concerning the taxation of petroleum activities are no longer included in the Tax Law. Even under the legislation in force until now, the taxation of petroleum activities has been treated with almost total autonomy in relation to other tax categories. This results not only from the complexity of taxation of this sector, but mainly from the coexistence of several tax regimes. In fact, due to special legislation, international commitments, or tax stability agreements, and depending on the location of the petroleum activities in question, there is currently a multiplicity of applicable legal frameworks, including the tax regime applicable during the Indonesian occupation.

This is, therefore, a matter that justifies autonomous legal treatment and whose revision, in cases where it is legally and contractually possible, does not have to occur within the framework of the revision of domestic taxation that is now intended to be carried out.

With this draft law, the government is fulfilling all these objectives, which converge to ensure the sustainability of public finances, while maintaining the simplicity of the tax system, the moderation of the tax burden, and its economic neutrality.

Thus, the Government presents to the National Parliament, under paragraph c) of paragraph 1 of Article 97 and paragraph a) of paragraph 2 of Article 115 of the Constitution of the Republic, the following draft law:

**Law no. /
of**

TAX LAW

Law No. 8/2022 of June 15, which approved the *Grandes Opções do Plano de 2023*, identified the need to diversify the sources of funding of the General State Budget by increasing tax revenues, increasing the tax base, adopting more modern taxes and reviewing tax rates in order to, inter alia, achieve progressivity in the tax burden.

To this end, the aforementioned law provides, in its item 14.2.7, for the pursuit of Tax Reform and, among other diplomas, the approval of a new Tax Law.

In fact, since the entry into force of Law no. 8/2008, of June 30, the Tax Law has been amended only once, by Law no. 5/2019, of August 27, and only with respect to the special provisions applicable to the taxation of oil and gas, in order to reflect the international commitments made under the Maritime Boundary Treaty, signed between the Democratic Republic of Timor-Leste and Australia on March 6, 2018.

It is therefore important to carry out a reform of this legislative framework, while safeguarding, as far as possible, the advantages arising from the stability of the tax system.

First of all, it is important to preserve the objectives underlying the drafting of the Tax Law, namely its declared intention to ensure a simple legal framework that is easy to apply by taxpayers and the State, to keep the tax burden at levels compatible with the economic and social reality of the country, and to prioritize the neutrality of the tax system, so as not to make it the determining reason for economic or investment options, replacing market forces and competition.

These are fundamental options that continue to be legitimate and that, as far as possible, should be maintained without disruptions that disturb the expectations of those who work and invest in Timor-Leste.

Taking all these aspects into consideration, the present law aims to meet three main objectives: i) increase and diversify the sources of tax revenue, ii) ensure an effective tax revenue collection capacity, and iii) improve technical aspects of the current Tax Law.

With regard to the increase and diversification of sources of tax revenue, a first step is being taken in the sense that taxation will no longer be exclusively focused on income, but also on assets, thus ensuring the social function of property and implementing the recommendations in this regard that have been addressed to Timor-Leste by several specialized international organizations. For this purpose, the tax on the acquisition of real rights on immovable property and the circulation tax are created.

The tax on wages is integrated in the tax on income, in order to ensure a greater identity of treatment between such income and income from business activity, according to a principle of neutrality that favors a fairer application of the new principle of progressivity. In fact, new tax brackets are introduced, with increasing tax rates, starting from the national minimum wage. In this way, even with a minimum and eminently symbolic level of taxation, the aim is to generalize the duty of all citizens to pay taxes, and the respective duty to contribute to the State's financial needs, to the extent of their respective possibilities.

The highest rate of taxation is set at 15%, which is an increase over the income tax rate currently in force, but which still corresponds to the minimum threshold of fair taxation, as defined in the GloBE rules (Global Anti-Base Erosion Rules) of the Organization for Economic Cooperation and Development.

The taxation of property income, namely interest, royalties and rents, gambling prizes and winnings, and income obtained in Timor-Leste by non-residents is raised to this rate, which continues to be taxed at a fixed and definitive rate.

In order to ensure an effective capacity to collect tax revenue, the mechanism of withholding tax on business income is generalized. With regard to this income, withholding tax no longer applies only to certain services (especially in the areas of construction and transportation), but to all payments for the sale of goods or provision of services made within the scope of business activity.

To ensure the neutrality of this mechanism, withholding tax is complemented with a self-retention mechanism by the taxpayers themselves, for sales of goods and services whose payers are not obliged to withhold tax (namely individuals and small business entities whose accounting follows the cash accounting standard). In coherence, the current income tax instalment levied on turnover is eliminated, and the taxpayer is assured of the offsetting or refund of the excess withholding tax.

The proposed generalization of the withholding tax mechanism is accompanied by a rule to combat the informal economy, under which only expenses that have been duly subject to withholding tax may be deducted from taxable income.

Also with a view to ensuring an effective tax revenue collection capacity, alternative mechanisms for determining the taxable income are created, namely the creation of an indirect method taxation regime, which will allow an estimate to be made of the taxable income when it is not possible to determine the actual taxable income (e.g. when the taxpayer does not submit an income declaration or systematically presents tax losses), and the introduction of a general anti-abuse rule, which will make it possible to disregard deals carried out artificially with a view to obtaining tax advantages.

In the same sense, and recognizing that the State's financial interest may, in certain circumstances, prevail over the right of individuals to privacy, it will now be possible, in the cases specifically provided for, to access a taxpayer's bank information and documents, and to include taxpayers with high-value tax debts on a public list of debtors, in order to encourage the voluntary settlement of non-compliance situations.

With the previously mentioned aim of combating the informal economy, a ban on cash payments above certain amounts is introduced, and the tax identification number is made compulsory and universal. To this end, the tax registration of all taxpayers and economic operators is encouraged, and withholding tax rates applicable to those who do not have a tax identification number are increased.

Finally, the powers of the tax authorities to act in relation to situations of non-compliance that continue over time are strengthened: i) with the creation of a credit privilege over the debtors' assets, which prevails over other third-party claims; ii) with the introduction of new rules of subsidiary or joint and several tax liability (which allow tax to be levied on persons who, under the circumstances provided by law, should be considered jointly and severally

liable for the failure to deliver the tax, namely directors and managers of commercial companies); and, iii) with the introduction of elementary rules of derogation to the principle of confidentiality of tax information that until now made it particularly difficult for the tax administration to cooperate with various public entities.

On the other hand, it gives legal coverage to the mechanisms of cooperation of the tax administration with taxpayers, ensuring predictability and transparency in their actions, for example, with the express legal empowerment for the issuance of binding information or generic guidelines for implementation of the new Tax Law.

In other technical aspects, it is opted to replace the sales tax by a corresponding increase in the import duty rate. This is, however, a financially neutral measure, or with insignificant financial impact for the state or the national economy, since both taxes were practically identical. Thus,

The tax on services, which is levied only on certain types of business activities, is also eliminated, in an unjustified deviation from the above principle of neutrality of the tax system, and is, moreover, a tax of little significance to the State in terms of revenue collection. The elimination of this tax is also a further preparatory aspect for the introduction of a new value added tax in Timor-Leste, which is expected to be applied more evenly and equitably to the consumption of goods and services in general.

Finally, the Tax Law no longer includes matters relating to the taxation of petroleum activities, a matter that justifies autonomous legal treatment and whose revision, in cases where it is legally and contractually possible, does not have to occur within the framework of the revision of domestic taxation that is now intended to be carried out.

With this law, therefore, all these objectives are fulfilled, which converge to ensure the sustainability of public finances, while maintaining the simplicity of the tax system, the moderation of the tax burden, and its economic neutrality.

Thus, the National Parliament decrees, under paragraph p) of article 95.2 of the Constitution of the Republic, to be valid as law, the following:

TITLE I TAX LAW

Chapter I Initial Provisions

Article 1 Object

The present law approves the Tax Law applicable in Timor-Leste.

Article 2 Purposes of Taxation

Taxation aims at meeting the financial needs of the State and of other public entities, and promotes social justice, equal opportunities and the necessary corrections of inequalities in the distribution of wealth and income.

Article 3

Classification of taxes

1. Taxes include taxes, including any special taxes or contributions, and other types of taxes created by law, specifically fees and other financial contributions in favor of public entities.
2. In Timor-Leste there are domestic taxes and customs taxes.
3. Domestic taxes are:
 - a) The income tax;
 - b) The tax on acquisitions of real rights over immovable property;
 - c) Circulation tax; and
 - d) Value Added Tax.
4. Customs taxes are the following:
 - a) the customs duties on imports; and,
 - b) excise duty.
5. The taxation of petroleum activities, the value added tax, and fees and other financial contributions in favor of public entities shall be the object of special law.

Article 4

Tax administration

Tax administration shall be ensured by the member of the Government responsible for the area of finance and by other members of the Government when, in both cases, they exercise administrative powers in the tax area, as well as by all the public services and entities responsible for the assessment and collection of taxes, or responsible for receiving the corresponding deliveries and payments in their name or on their behalf, namely, under the terms of the respective organic legislation, the Tax Authority, the Customs Authority, the National Institute of Social Security, and the public services that succeed them.

Chapter II

Assumptions of Taxation

Article 5

Presuppositions of taxation

1. Taxes shall be based essentially on the ability to pay, as revealed, under the terms of the law, by means of the real value of the income, assets or consumption, without prejudice to the provisions of Article 32.

2. Taxes are based on the concrete provision of a public service, the use of an asset in the public domain or the removal of a legal obstacle to the behaviour of private individuals.
3. Special contributions that are based on the taxpayer obtaining benefits or increases in the value of his or her property as a result of public works or the creation or expansion of public services, or on the special wear and tear on public property caused by the exercise of an activity, are considered taxes.

Article 6

Ineffectiveness of legal acts and transactions

1. The ineffectiveness of legal transactions does not impede taxation, at the time when it should legally occur, if the economic effects intended by the parties have already been produced.
2. The mechanisms or series of mechanisms that, having been put into practice with the main purpose or one of the main purposes of obtaining a tax advantage that frustrates the object or purpose of the applicable tax law, are not genuine, taking into account all the relevant facts and circumstances, must be disregarded for tax purposes.
3. For the purposes of the preceding paragraph, a mechanism may consist of more than one step or part.
4. A mechanism or series of mechanisms is considered not genuine to the extent that it is not put into practice for valid commercial reasons that reflect economic reality.
5. If the mechanism or series of mechanisms are disregarded pursuant to paragraph 2, taxation shall be carried out in accordance with the rules applicable to business or acts that correspond to the substance or economic reality, and the intended tax advantages shall not be produced.

Article 7

Lawfulness of income or taxable acts

All facts that fulfill the assumptions of the applicable incidence rules are taxable, regardless of their lawfulness, or the fulfillment of other material or formal requirements set forth in the sectorial legislation that regulates them.

Chapter III

Tax Relation

Section I

Tax Liability

Article 8

General Rules

1. Responsibility for compliance with tax obligations lies with the taxpayer.
2. Taxpayer is considered to be the person designated as such by law in relation to the fulfillment of the obligations inherent to each tax, whether as a direct taxpayer, substitute taxpayer or jointly and severally or subsidiarily liable.
3. Tax substitution is effected through the mechanism of withholding at source the tax due.
4. Joint or subsidiary liability is effected under the terms of articles 12 to 16, without prejudice to the provisions of special law.
5. Tax liabilities shall be transferred, even if they have not yet been assessed, in the case of universal succession by death, without prejudice to the benefit of inventory.

Article 9

Legal nature of the taxable person

1. Any person, being considered as such any natural person or entity, may be qualified as a taxable person, under the terms of the previous article.
2. For the purposes of the provisions of the preceding number and of this law, an entity is deemed to be:
 - i. Any legal person incorporated, created, organized or established in East Timor or in foreign territory, including any commercial company, cooperative, civil company, association or foundation, or any other group of persons, even if irregular or only de facto, including associations without legal personality and special committees;
 - ii. Any separate estate, with or without legal personality, including a trust or the estate of a deceased natural person;
 - iii. A State, a political or administrative subdivision of a State, irrespective of its name or legal form, including public legal persons or a public international law organization.

Article 10

Associates of the taxpayer

1. The provisions of articles 8 and 9 are without prejudice to situations in which the law expressly extends compliance with certain tax obligations to the associates of a taxable person.
2. Associates are considered to be persons whose relationship with each other is likely to lead one to believe, within reasonable terms, and regardless of the existence or non-existence of a functional relationship, that one or more of them is acting in accordance

with the intentions of the other or that both or more of them are acting in accordance with the intentions of a third person, namely:

- i. A natural person and a relative thereof;
 - ii. An entity and any person directly or indirectly controlling it, including ownership of 50% or more, in value or number, of its share capital or voting rights; or
 - iii. Two or more persons, when a third person has direct or indirect control, namely holding 50% or more, in value or number, of the respective share capital or voting rights.
3. For the purposes of this law, the following are deemed to be relatives of a natural person:
- i. His spouse;
 - ii. His ascendant, a descendant of any of his grandfathers or grandfathers or an adopted child of the person or of his spouse; or
 - iii. The spouse of a person referred to in point (i) of the previous number.

Article 11

Tax obligations of the state and public entities

The state and public entities are obligated to comply with the tax obligations established for other people, except when the law expressly determines otherwise.

Article 12

Tax obligations of the spouse

The liability of the spouse of the taxable person is that which arises from civil law, without prejudice to the provisions of special law.

Article 13

Liability of partners of civil companies and members of de facto organizations

The partners of a civil company, or any member, manager, director or administrator of an association or unincorporated organization are jointly and severally liable for their tax debts.

Article 14

Liability of the members of corporate bodies and technical managers

1. Directors, officers and managers and other persons who exercise, even if only de facto, administration or management functions in entities are subsidiarily liable in relation to the latter and jointly and severally among themselves:
 - a) For tax debts whose constitutive fact took place while they were in office, when it was their fault that the entity's assets became insufficient to satisfy them, or when it is shown that they committed malice or serious negligence in complying with the duties of assuming responsibility for technical regularization in the accounting and tax areas that they were in charge of;

- b) For tax debts whose legal deadline for payment or delivery has expired while they were in office, when they do not prove that they were not responsible for the lack of payment.
- 2. The liability provided for in this article applies to the members of supervisory bodies and auditors, in the entities in which they exist, provided that it is shown that the violation of their tax duties resulted from their failure to perform their supervisory duties.
- 3. The liability foreseen in this article applies to accountants, as long as the existence of malice or serious negligence in the performance of the duties of assuming responsibility for technical regularization in the accounting and tax areas is proven.

Article 15

Liability of the representative of a non-resident

- 1. Any person in possession of goods belonging to a non-resident, under the terms of paragraph 4 of article 44, is jointly and severally liable for the tax debts of the latter.
- 2. For the effects of the provisions of the previous number, the commander of a ship or aircraft, or the person who exercises, even if only de facto, functions of administration or management of the property owned, chartered or leased by a non-resident person, is considered to be the person in possession of the goods.
- 3. The person who pays the tax debt under this Article shall be deemed to make the payment on behalf of the taxpayer, and the taxpayer shall be barred from attempting to recover that amount from that person.

Article 16

Recovery of tax from the taxpayer's debtors

- 1. If the tax due has not been paid by the due date, the tax administration may order the payment thereof to any person:
 - a) Who proves to be a debtor of the tax subject;
 - b) Who holds assets of the taxable person;
 - c) Empowered by a third party to pay a debt to the taxpayer.
- 2. The person who makes a tax payment pursuant to this Article shall be deemed to make the payment on behalf of the person liable to pay the tax, and the person liable to pay the tax shall be prohibited from attempting to recover that amount from that person.

Section II

Extinction of the Tax Relation

Section 17

Forms of extinguishment of the tax debt

The tax debt is extinguished, totally or partially, by payment, offsetting, cancellation of assessment, or by the passage of time.

Article 18

Payment

The tax debt is paid, as a rule, by bank transfer, without prejudice to other forms of payment authorized by ministerial diploma.

Article 19

Compensation

1. The taxpayer who holds a tax credit may request the tax administration to offset it against a tax debt of the same nature.
2. For the purposes of the provisions of the previous number, the tax administration verifies that the tax credit of the taxpayer is certain, liquid and due, and that it is of the same nature as the tax debt to be offset.
3. The credits and debts related to the same tax are considered to be of the same nature.

Article 20

Cancellation of the tax debt

1. The tax debt may be totally or partially annulled:
 - a) in the scope of an administrative procedure in which its legality is disputed;
 - b) By judicial decision;
 - c) Under a court settlement.
2. The tax administration is prohibited from modifying or extinguishing tax debts outside the circumstances foreseen in the previous number.

Article 21

Expiration of the right to liquidation

1. The right to tax assessment shall expire if the assessment is not validly notified to the taxpayer within a period of five years, unless the law establishes otherwise.
2. The statute of limitations runs from the end of the year in which the taxable event took place.
3. In the case of judicial litigation or criminal proceedings whose outcome depends on the assessment of the tax, the time limit mentioned in paragraph 1 is extended until the sentence is dismissed or becomes final and unappealable, plus one year.

Article 22
Suspension of the statute of limitations

1. The statute of limitations referred to in the previous article is suspended for as long as an external tax inspection of the taxpayer is in progress.
2. The suspension referred to in the previous number is counted from the date of notification of the inspection to the taxpayer and cannot exceed a period of one year.

Article 23
Prescription

Tax debts are time-barred within 10 years, counting from the end of the year in which the taxable event occurred.

Section III
Reciprocal Relations of Taxpayers and Tax Administration

Article 24
General duty of cooperation

1. All persons, whether or not taxpayers, have the duty to cooperate in good faith with the tax authorities, providing full and truthful information, explanations and evidence to which they have access or which are requested of them regarding any situation, as well as regarding the economic relations that they maintain or have maintained with third parties.
2. The provisions of the previous numbers are applicable to the State and public services, whether personalized or not.

Article 25
Tax Identification Number

1. It is obligatory to be holders of a tax identification number:
 - a) Timorese citizens;
 - b) Persons resident in Timor-Leste, under the terms of section 44
 - c) Permanent establishments of non-resident persons, under the terms of section 81.
2. Persons who, under the terms of the law, wish to exercise their rights vis-à-vis the Tax Administration, including non-resident persons who only obtain income subject to definitive withholding tax, shall also be holders of a tax identification number.
3. The tax administration is responsible for issuing the tax identification number.
4. The procedures for issuing the tax identification number, as well as the information and identification elements required for the purpose, shall be defined by ministerial statute,

favouring articulation with other public services of the state, personalized or not, especially the civil and commercial registry services.

Article 26

Confidentiality of tax information

1. The managers, employees and agents of the tax administration are obliged to maintain the confidentiality of the data collected about the tax situation of taxpayers and the personal details they obtain in the course of their duties, namely those arising from professional secrecy or any other legally regulated duty of secrecy.
2. The duty of secrecy ceases in the event of:
 - a) Authorization of the taxpayer for the disclosure of his or her tax situation;
 - b) The need to use the information in question for tax proceedings or for compulsory collection, by the tax administration or the public services of the State, whether personalized or not;
 - c) Triggering of joint or subsidiary liability of third parties;
 - d) Mutual assistance and cooperation of the tax administration with the tax administrations of other countries, resulting from international conventions to which the State is bound, whenever reciprocity is foreseen;
 - e) Collaboration with justice under the terms of the Code of Civil Procedure and by order of a judicial authority, within the scope of criminal proceedings;
 - f) Confirmation of the tax identification number and tax domicile to the entities legally competent for public registries, namely commercial, land or automobile registries.
3. The duty of confidentiality shall also apply to whoever obtains, even unlawfully, information protected by tax secrecy.
4. The duty of confidentiality does not apply to:
 - a) Information disclosed through the public list of debtors provided for in Article 33;
 - b) The disclosure of information intended for incorporation in official statistics reports, whenever the taxpayers in question are not identified or identifiable.

Article 27

Consultation of the tax situation and issue of certificates

1. Taxpayers have the right to consult their tax situation and to obtain a certificate that contains the tax situation, regardless of the claim of a specific need or whether or not the tax situation is regularized.

2. The certificate referred to in the preceding paragraph shall, as a general rule, be requested and issued by electronic data transmission, without prejudice to the provisions of the following paragraphs.
3. The forms, procedures, information and authentication mechanisms required for the issue of certificates of tax status, as well as the respective periods of validity, shall be defined by ministerial decree.
4. The ministerial statute referred to in the preceding number shall also establish the circumstances in which certificates of tax status may be obtained in person, or the categories of taxpayers who, due to their nature, lack of means, or presumed digital illiteracy, are exempt from obtaining them by any other means.

Article 28

Binding information

1. The tax administration is empowered to issue binding information on the tax situation of taxpayers.
2. Binding information is requested from the tax administration service which is competent in relation to the matter, by the taxpayer, other interested parties or their legal representatives, the request being accompanied by a detailed description of the facts whose legal and tax classification is sought.
3. The provision of binding information is subject to the prior payment of the fees established by ministerial decree.
4. The fees referred to in the previous number cannot be refunded, except if the tax administration does not issue an opinion within 180 days from the date of submission of the binding information application, in which case the applicant may request the respective refund.
5. The application for binding information will be filed if the facts which are the subject of the information request are or will be under examination within the scope of judicial proceedings or administrative proceedings, namely a complaint, hierarchical appeal or tax inspection.
6. If the description of the facts or the elements presented by the taxpayer for the provision of binding information prove to be insufficient or obscure, the tax administration will notify the taxpayer to make good the omission within 15 days, on pain of the procedure being closed.
7. The archiving of the procedure carried out under numbers 5 and 6 does not give rise to the refund of the fees due for the presentation of the application for binding information.

8. The tax administration is bound by the information given to a taxpayer under this article, and cannot do otherwise, except:
 - a) In the event of a supervening change in the factual or legal assumptions on which the binding information was based;
 - b) In compliance with a court order.
9. Binding information expires five years after the date it is issued.
10. Notwithstanding the provisions of the previous number, binding information may be revoked, with effect for the future, one year after it was issued, after the applicant has been heard, with the safeguarding of previously established rights and legitimate interests.
11. The decisions of the tax authorities relating to the legal and tax framework of the facts set out in the response to the request for binding information are subject to judicial appeal.
12. Information provided to a taxable person outside the scope of this article does not bind the tax administration, without prejudice to the provisions of the following article.

Article 29 **Generic guidelines**

1. The tax administration is empowered to publicly issue generic guidelines, in the form of circular letters, with the aim of standardizing the interpretation and application of tax norms, within the limits of these.
2. The generic guidelines referred to in the preceding paragraph are binding on the tax authorities until they are expressly revoked, and create in the taxpayers a legitimate expectation about the understanding contained therein.
3. The tax administration must proceed to convert binding information into a circular letter when a relevant question of law has been raised and has been examined in the same way three times.

Article 30 **Authority powers of the tax administration and its agents**

1. The tax administration and its employees and agents shall have the appropriate powers of authority for the performance of their respective functions, namely the powers to:
 - a) Carry out the necessary diligent inquiries within the scope of inspection procedures regarding the taxpayers' compliance with their tax obligations;

- b) Carry out the necessary diligent proceedings to detect and investigate infractions that have been committed in violation of tax legislation
 - c) Carry out the necessary diligences to protect the collection of revenues and to prevent violations of the tax legislation
 - d) Carry out searches in ports, airports, and customs warehouses, or in the premises or residence of taxable persons;
 - e) Search people, luggage and means of transport;
 - f) Detain and interrogate people in flagrant breach of tax legislation for the time strictly necessary to deliver them into the custody of the competent entities.
2. The security forces and services are obliged to provide the tax administration with any support in maintaining law and order that may be requested of them in order to carry out the measures referred to in the preceding paragraph.
 3. The provisions of this article are without prejudice to compliance with the provisions of the Code of Criminal Procedure, nor to the powers attributed to the police or public prosecution services, within the scope of criminal proceedings.

Article 31

Representation of the tax administration in court

1. The State shall be represented by the Public Prosecutor's Office in enforcement actions for the collection of tax debts, as well as in contentious appeals brought by private individuals or persons administered against decisions or acts of the tax administration and its agents.
2. The provisions of the preceding paragraph do not affect the possibility of appointing a legal representative, under the terms of Decree-Law 16/2012, of 4 April.

Chapter IV

Administrative mechanisms for combating tax evasion

Article 32

Indirect methods

1. The tax administration is empowered to carry out an indirect assessment of the taxable amount of any tax, when it is not possible to directly and precisely prove and quantify the elements indispensable for its correct determination.
2. For the purposes of the provisions of the preceding paragraph, the direct and exact proof and quantification of the elements indispensable for the correct determination of the taxable amount shall be deemed to make it impossible:

- a) Failure to comply with tax reporting obligations within the legal time limit;
 - b) The inexistence, falsity, adulteration, insufficiency, incorrectness or inconsistency of accounting elements, regardless of the reason, even if accidental;
 - c) The existence of a manifest discrepancy between the declared value and the economic value of rights, goods or services, as well as concretely identified facts that allow for the presumption of a significantly greater taxable income than that declared; or
 - d) The presentation of null taxable results or tax losses for three consecutive years.
3. The determination of taxable income by indirect methods is carried out in the context of a tax inspection, whether internal or external, and must take into account one or more of the following elements:
- a) The average margins of net profit on sales of goods and supplies of services made by the taxpayer, or the taxpayer's purchases of goods and services from third parties;
 - b) The average rates of return on invested capital;
 - c) The elements and information declared to the tax administration, including those related to other taxes, as well as those related to companies or entities that have economic relations with the taxpayer;
 - d) The location and dimension of the activity carried out;
 - e) The presumed costs in function of the concrete conditions of the exercise of the activity;
 - f) The taxable income for the closest year or years as determined by the tax administration;
 - g) The fair market value of the taxed goods or services;
 - h) A congruent and justified relation between the ascertained facts and the taxpayer's concrete situation.
4. In cases of commencement of activity, the provisions of this article shall only apply as from the end of the first full tax year of activity, including as to the counting of the time limit set forth in paragraph 2-part d).

Article 33

Public debtors list

1. The tax administration shall publish and permanently update a public debtors list on its website, in which all taxpayers with tax debts over US\$ 5,000 due and unpaid for over 30 days are identified by name and tax identification number.
2. With regard to the entities included in the public debtors list, the respective subsidiary or jointly and severally liable parties may also be identified, in particular the directors, officers and managers referred to in article 14.
3. The public debtors list shall be organized in alphabetical order of debtors' names, in numerical order of their tax identification numbers, in increasing order of the amount of their tax debts, or in chronological order of their inclusion in the debtors list, depending on the option selected by users.
4. The inclusion of a debtor in the public debtors list shall remain in effect until the respective tax situation is settled or becomes unenforceable under the terms of the law.

Article 34

Guarantee of tax debts and credit privilege

1. All assets belonging to the person are liable for tax debts that are not settled within the legal term, and the tax administration's claim takes precedence over all other rights.
2. Assets sold or given in guarantee to a third party by a debtor included on the public debtors list are also liable for tax debts as from the moment the latter is included on the said list.
3. The provisions of the preceding paragraph do not apply to assets sold or given as guarantee under market conditions.

Article 35

Access to bank information and documents

1. Financial institutions and other entities that provide payment services are obliged to provide the tax authorities with the information and documents requested to them regarding the financial operations carried out through their intermediary with a taxable person and his associates, without requiring their consent.
2. The tax administration may request the financial information in question:
 - a) When it is not possible to prove and quantify directly and accurately the elements indispensable to the correct determination of the respective taxable income of the taxpayer, pursuant to article 32 (2).

- b) In the case of a debtor included in the public debtors list;
 - c) In the case of information requested under the terms of international agreements or conventions on tax matters to which the state is bound.
3. The information and documents referred to in the previous numbers include any record, regardless of its support, concerning the carrying out of financial transactions, namely the opening and movement of bank accounts, payment accounts or securities accounts, including the respective balances, and transactions carried out through the use of any means of payment.

Article 36

Prohibition of cash payments

1. It is prohibited to pay or receive in cash, in transactions of any nature, involving amounts equal to or higher than US\$ 500, or its equivalent in foreign currency.
2. Without prejudice to the previous number, it is forbidden to pay or receive in cash, in transactions of any nature, involving amounts equal to or higher than US\$ 5,000, or its equivalent in foreign currency, with the same counterpart and its associates in each 12-month period.
3. The provisions of this article are applicable to the fulfillment of tax obligations.
4. The provisions of this article are not applicable to operations carried out with financial institutions and other entities providing payment services, within the scope of the activity of receiving deposits, providing payment services or carrying out manual exchange operations, as well as in payments arising from judicial decisions or orders, and in situations excepted by law.

Chapter V

Provisions Common to the Administration of All Taxes

Article 37

Tax obligations of a declarative nature

1. Compliance with the declarative obligations provided for in this law may, upon the instructions of the tax administration, be ensured by means of a combined or unified tax return.
2. The compliance with the declarative obligations foreseen in this law may also, upon the instructions of the tax authority, be combined or unified with the compliance with the declarative obligations of the taxpayers with other public services of the state, personalized or not, especially the commercial registry services and the regulatory authorities.

Article 38
Digital administration

1. As a rule, tax reporting obligations must be fulfilled by electronic data transmission, without prejudice to the provisions of the following number.
2. A ministerial statute may establish the circumstances in which tax obligations may be fulfilled in person, or the categories of taxpayers who, due to their nature, lack of means, or presumed digital illiteracy, are exempt from fulfilling them in another manner.

Article 39
Tax benefits for investment

1. The holders of investment tax benefits are obliged to comply with the reporting obligations established in this law, under the same terms as those applicable to other taxpayers.
2. The holders of investment tax benefits are bound to comply with the obligations imposed by this law on jointly and severally liable, subsidiary or substitute taxpayers, and are notably obliged to withhold withholding tax on the payments they make, under the same terms applicable to other taxpayers.
3. In complying with their tax reporting obligations, the holders of tax benefits for investment shall expressly declare all amounts which, being subject to tax, are exempt from it.
4. Proof of the ownership, scope and validity of the applicable tax benefits, for tax purposes, is effected by means of the presentation of the corresponding benefit statement or investor certificate as provided for in special legislation.
5. The tax administration shall collect annually, for statistical purposes, and in an individualized manner, the amounts of tax to which tax benefits for investment have been applied.

Article 40
Currency conversion

1. Any amount taken into account for purposes of this law shall be calculated in US dollars.
2. Except as provided in the following subsection, where an amount is expressed in a currency other than the US dollar, such amount shall be converted at the average exchange rate of the Central Bank of East Timor applicable between such currency and the US dollar on the date when the amount is taken into account for tax purposes.

3. With the prior written permission of the tax administration, a taxpayer carrying on business activities may use the average exchange rate for the tax year or part of the tax year.

Section 41 **Minimum Limit of Taxation**

In order to avoid administrative burdens disproportionate to the amount of revenue that would be collected, the tax administration is authorized, up to a maximum limit of US\$ 1.00:

- a) Not to make an assessment, collection or refund of tax;
- b) To disregard, for the purpose of issuing an additional tax assessment, the difference between the amount assessed or withheld by the taxpayer and the amount that was actually due.

TITLE II **DOMESTIC TAX**

Chapter I **Income Tax**

Section I **General Provisions**

Section 42 **Incidence**

1. Income tax is levied on the taxable income of the taxpayer obtained in the tax year in question.
2. Income tax shall correspond to the application of the rate or rates set out in Attachment I to the taxpayer's taxable income, and any applicable tax credits shall be subtracted from the amount so obtained.
3. If a taxpayer benefits from more than one tax credit for a tax year, the credits shall be deducted in the following order:
 - a) the foreign tax credit referred to in Article 79;
 - b) the tax credit resulting from withholding tax referred to in Article 89.

Article 43 **Taxable Persons**

1. Without prejudice to the provisions of the following number, the following are taxpayers of income tax:
 - a) A resident person, under the terms of the following Section;

- b) A permanent establishment of a non-resident person in Timor-Leste, under the terms of section 81;
 - c) Other non-residents with income with source in Timor-Leste.
2. The following are not liable to income tax:
- a) A diplomatic mission;
 - b) An international organization, subject to the decision of the member of the Government responsible for the area of finance, provided that:
 - i. Timor-Leste is a member of the organization in question; and
 - ii. The organization in question does not exercise a business activity nor promotes any other activities aimed at obtaining income with a source in Timor-Leste, with the exception of the granting of loans to the State from a fund constituted by contributions from its members.
4. The taxable income of each taxpayer shall be calculated individually.
5. The taxable income of a taxpayer that is an entity shall be subject to tax separately from that of its members.
6. For the purposes of the preceding paragraph and of this law, members of an entity are deemed to be its shareholders, partners, or any other person holding an interest in that capacity in the entity in question.
7. The status of taxable person for income tax purposes does not depend on actually earning income in a given tax year.

Article 44 **Tax residence**

1. Residents in Timor-Leste are deemed to be resident natural persons and resident entities.
2. A resident natural person is considered to be:
- a) A natural person who stays in Timor-Leste for a period or periods totaling one hundred and eighty-three days in any twelve-month period beginning or ending in the year concerned, unless the permanent dwelling of such person is not located in Timor-Leste;
 - b) An employee of the State of the Democratic Republic of Timor-Leste posted abroad at any time during the year;
3. The following shall be deemed to be resident entities:
- a) an entity, pursuant to subsection 9(2), incorporated, created or organized in Timor-Leste;
 - b) The inheritance of a natural person residing on the date of opening of the succession;
 - c) The State and its public services, whether personalized or not.

4. A person who is not a resident under the terms of the preceding subsections shall be deemed not to be a resident in Timor-Leste.

Article 45 **Taxable Income**

1. Without prejudice to the provisions of the following number, taxable income is the sum of the following incomes:
 - a) income from dependent employment, determined pursuant to Section II of this Chapter;
 - b) Income from business activity, as determined in accordance with Section III of this Chapter
 - c) Property income, as determined under Section IV of this Chapter
 - d) Prizes or winnings from gambling;
 - e) Any other amounts not included in the previous sub-paragraphs, and which constitute an increase in economic capacity, irrespective of their designation or form, including public subsidies, which can be used by the taxpayer for consumption purposes or to increase his assets.
2. For the purposes of the previous number:
 - a) The taxable income of a resident taxpayer shall include income from all sources located within and outside East Timor; and
 - b) The taxable income of a non-resident taxpayer shall include only income derived from sources situated in Timor-Leste.

Article 46 **Excluded Income**

The following are excluded from taxable income referred to in the previous articles:

- a) The following remuneration:
 - i. the remuneration of a worker who is a national of a foreign country, received as a public official of the government of a foreign country;
 - ii. ii) The remunerations of an official of the United Nations or its specialized agencies;
 - iii. iii) The remunerations of agents of cooperation of foreign States, of public legal persons of foreign States or of international organizations, carrying out their activities under agreements concluded with the State.
- b) Amounts, in cash or in kind, received by an entity as payment of its capital, in exchange for the corresponding participations;

- c) Contributions paid by an employer or a dependent employee to a pension fund registered, authorized, or licensed in Timor-Leste
- d) Sharing of inheritances, when the respective beneficiary is a legitimate heir;
- e) Compensation for expropriation for public utility determined in accordance with the law;
- f) Any donation or aid with the nature of natural obligation received from a relative, under the terms of number 3 of article 10
- g) Any donation or aid in the nature of a natural obligation received by legally constituted associations and foundations whose object is exclusively to defend human rights or relevant public interests, namely public health, the environment, quality of life, protection of the consumption of goods and services, cultural heritage, or the public domain
- h) Amounts paid by the State to educational establishments or scientific research centers, under a scholarship contract to students to pursue studies and scientific research in higher education institutions or research centers abroad; and
- i) Any income in respect of which an agreement binding the State of Timor-Leste internationally provides for exemption or exclusion from taxation.

Section 47 **Amounts received and payments made**

1. For the purposes of the present Chapter, legal references to the receipt or payment of an amount include not only the receipt or payment of a monetary sum, but also the receipt or payment of a value in kind.
2. An amount received by a person includes an amount placed at his disposal, or an amount applied in his name or on his behalf.
3. An amount paid by a person includes an amount made available by him, or applied in the name or on behalf of a third party.

Article 48 **Amounts in kind**

1. Values in kind shall be accounted for at fair market value at the date they are taken into account for tax purposes.
2. For the purposes of this law, the fair market value shall be determined without regard to any restriction on disposal.

Article 49
Method for determining taxable income

1. Taxable income is, as a rule, determined based on the taxable person's declaration referred to in article 99, and based on compliance with the other obligations required by this law.
2. The tax administration may correct the taxable income, of its own initiative, when it detects errors or omissions on the part of the taxpayer in complying with the statements or obligations referred to in the previous number, without prejudice to the provisions of articles 6 and 32.

Article 50
Tax Year

A tax year is considered to be the twelve-month period from January 1 to December 31.

Section II
Income from dependent work

Article 51
Income and deductions

1. Employment income is deemed to be the gross remuneration earned as taxable income by the taxpayer under a dependent employment relationship.
2. For the effects of the provisions of the previous number, a relationship of dependent employment is considered to be that which is qualified as such in the labor legislation, including the holding of positions on the governing bodies of an entity, or the holding of public office.
3. Income from dependent employment is not subject to tax deductions.

Article 52
Taxable remuneration

1. Taxable remuneration is deemed to be any remuneration earned for work performed by an employer's dependent worker, and which is not excluded from taxation under the terms of article 46, namely:
 - a) Any remuneration awarded to the worker, including overtime, commissions or bonuses;
 - b) Any remuneration earned by managers, directors and officers, and other remuneration for the performance of their duties;

- c) Any allowance or additional payment made by an employer for the benefit of a worker;
 - d) The amount to which an employer is entitled and waives an obligation to pay the employee a certain amount;
 - e) Any payments made at the end of the employment contract for amounts to which the worker is entitled and which have not yet been paid, however named
 - f) Any payment made by the employer due to the loss or termination of the employment contract, or as severance pay;
 - g) The value of gifts offered by the employer to the employee;
 - h) The payment or reimbursement by the employer of any expenses of the employee, including household expenses or health expenses;
 - i) non-wage benefits in excess of \$20 for each calendar month provided to a worker.
2. For the purposes of the provisions of subparagraph (i) of the preceding paragraph, a non-wage benefit shall be deemed to be any consideration in kind granted by the employer to the dependent worker, including:
- a) The amount referring to the use, by a worker, and for fully or partially personal purposes, of a motor vehicle provided by the employer;
 - b) the value relating to the use by a worker of accommodation or housing provided by his employer;
 - c) The value of the employer providing a housekeeper, chauffeur, guard, gardener or other domestic staff to a worker;
 - d) The costs incurred by the employer in providing an employee with meals, refreshments or entertainment, except where these are incurred in the course of providing work, and provided that the tax administration considers such costs reasonable; and
 - e) The fair market value of any other non-monetary benefit provided by an employer to an employee.

Section III
Income from Business Activity

Article 53
Gross income and deductions from business activities

1. Income from business activity is deemed to be the difference between the gross income resulting from all business activities carried out by the taxpayer during the tax year and the deductions allowed under this law.
2. Excluded from business activity is income from property referred to in section IV,
3. 3. Without prejudice to the provisions of the preceding number, business income includes all asset increases that are obtained during or at the end of the business activities, irrespective of their source, designation or form, namely the extinguishment of debts and capital gains resulting from the disposal of fixed assets.
4. The asset increases referred to in the previous number do not include asset increases that constitute a debt of the taxpayer.
5. The determination of income from business activity is based on the net result of the fiscal year of the taxpayer for financial accounting purposes, prepared in accordance with the international accounting standards, with the corrections determined in this law, without prejudice to the provisions of paragraph 7f of article 55.
6. For the purposes of the previous paragraph, the international accounting standards are considered to be the International Accounting Standards - IAS, the International Financial Reporting Standards - IFRS and related interpretations (SIC-IFRIC interpretations), subsequent alterations to these standards and related interpretations and future standards and related interpretations issued or adopted by the International Accounting Standards Board.

Article 54 Business Activities

Any commercial, industrial, extractive, agricultural, forestry, livestock or handicraft activity, the provision of independent services or, in general, the exercise of a profession outside the scope of an employment relationship, shall be deemed to be a business activity, irrespective of the legal nature of the entity carrying it out.

Article 55 Accounting Method

1. The taxpayer shall determine income tax according to the criterion of economic competence.
2. Taxpayers, with the exception of permanent establishments of non-residents, which have both a gross annual turnover of less than US\$ 100,000 and fewer than 15 employees, may choose to determine income tax under the economic competence criterion or under the cash competence criterion.
3. The assumptions referred to in the previous number shall be verified at the end of the tax year to which the income tax relates or, in the case of the first tax year of activity, in

the declaration of commencement of activity submitted by the taxpayer under the terms of article 58.

4. The taxpayer's option may be altered in the statement of amendments to the statement of commencement of activity, and this option will be valid as from the beginning of the tax year following the exercise of this option, without prejudice to the provisions of paragraphs 5 and 6.
5. The minimum period of permanence in the economic competence criterion is five years, automatically extendable for equal periods, except if the taxpayer notifies the option for the application of the cash competence criterion.
6. 6. The taxpayer who has previously observed the economic competence criterion and now adopts the cash competence criterion shall make adjustments to the income, deduction or credit items, as well as all other items affected by the change, so that no item is omitted and none is taken into account more than once.
7. A taxpayer who determines his income tax under the cash accrual basis of accounting considers income to have been realized when he receives it, or when it is made available to him, and considers expenses to have been incurred when they are paid.
8. A taxpayer who determines his income tax according to the economic competence criterion considers income to have been realized when it is likely to be received and considers expenses to have been incurred when they are likely to be paid.
9. An amount is receivable by a taxpayer when he acquires the right to receive it, even if the time of discharge or exercise of that right is postponed or its payment is made in instalments.
10. An amount is liable to be paid by a taxable person when all the facts determining his obligation have occurred and the amount of that obligation can be determined with reasonable accuracy, but not before the taxable event has occurred.
11. The taxable event occurs:
 - a) in the case of acquisition of services, goods or assets, at the time the services, goods or assets are supplied;
 - b) In the case of use of goods or assets, at the time the goods or assets are used; and
 - c) In any other case, at the time the taxpayer makes full payment of his obligation.

Article 56 **Execution of accounting**

1. In the keeping of the accounts, irrespective of the competence criterion used, the following shall be observed:

- a) Accounting entries shall be supported by true and supporting documents, dated and capable of being presented whenever necessary; and,
 - b) Operations must be recorded chronologically, without amendments or erasures, and any errors must be subject to accounting regularization as soon as they are discovered.
2. No delays in accounting shall be allowed to exceed 60 days from the last day of the month to which the operations refer.
 3. The accounting books, auxiliary records and respective supporting documents shall be kept in good order, and in national territory, for a period of ten years.
 4. When the accounts are kept by computerised means, the obligation of conservation referred to in the previous number shall extend to the documentation relating to the analysis, programming and execution of the computerised processing.
 5. The supporting documents for accounting books and records that are not authentic or authenticated documents may, after five tax periods following the one to which they refer, and with the prior authorization of the tax authorities, be replaced, for tax purposes, by microfilms or electronic files that constitute a faithful reproduction thereof and comply with the conditions to be established.
 6. Taxpayers who, under the terms of the previous number, must determine income tax according to the criterion of economic competence, shall prepare their accounting statements in accordance with the accounting system in force.

Article 57 **Issuing invoices**

1. Holders of income from business activity are required to issue invoices for each and every amount received or to be received from their clients for any reason whatsoever, namely as a transfer of goods, provision of services, provision, guarantee, advance payment or reimbursement of expenses.
2. Persons who make payments of income from business activity are obliged to demand the corresponding invoices.
3. Invoices must be dated, sequentially numbered, issued in duplicate, with the original going to the client and the duplicate to the supplier's file, and must contain the following information:
 - a) The name or firm, the residence or headquarters, and the tax identification number of the supplier of the goods or service provider;
 - b) The name or company name, residence or headquarters, and tax identification number of the recipient or purchaser of the goods or services

- c) The quantity and usual denomination of the goods transmitted or the services rendered;
 - d) The date on which the goods were made available to the purchaser, on which the services were performed, or on which payments were made prior to the transactions, if this date is not the same as the date on which the invoice is issued
 - e) The price, net of tax, and the other elements included in the taxable amount;
 - f) The tax rates that may be applicable;
 - g) The indication of the amount of tax withheld or self-withheld;
 - h) The reason for not applying the tax, if any.
4. The invoices are issued within the following time limits:
- a) On the date of receipt, in the case of payments relating to a transfer of goods or provision of services not yet made but received in advance.
 - b) On the date of receipt, in the case where payment coincides with the moment in which the goods are transmitted or the provision of services is concluded.
 - c) Until the fifth day following the moment in which the goods were transmitted or the rendering of services was concluded, if payment has not been made until that day.
5. Invoices are substituted by credit notes, in the case of returns of goods previously transacted between the same persons.
6. Credit notes must be dated, sequentially numbered in their own series, issued in duplicate and contain the elements required in number 3 of this article, as well as indicate to which invoice, they refer and the mentions of the invoice that are subject to alterations.
7. In invoices with a total value of less than US\$ 100.00, the indication of the elements mentioned in paragraph b) of number 3 of this article is dispensed with, except if such indication is requested by the receiver or acquirer of the goods or services.
8. The non-taxation under income tax or any exemption therefrom does not exempt the taxpayer from issuing invoices corresponding to the goods transmitted or services rendered.
9. The provisions of this article are without prejudice to the special provisions of the value added tax legislation.

Article 58

Declaration of commencement of activity, of changes and cessation

1. Before beginning any business activity susceptible of producing income, the taxpayer must submit to the tax administration a declaration of commencement of activity.
2. Whenever there are changes in any of the elements included in the declaration of commencement of activity, the taxpayer must submit to the tax administration a declaration of changes in activity, within 30 days of the change in question.
3. In the case of cessation of activity, the taxpayer must submit to the tax administration, within 30 days, the respective declaration of cessation of activity.
4. The cessation of activity is considered verified when:
 - a) A business activity ceases and the liquidation of the inventories and other assets of the taxpayer has been terminated;
 - b) The transfer, for any reason whatsoever, of the entire business activity to another taxpayer.
5. Notwithstanding the provisions of paragraph 1, the tax administration may declare of its own initiative the commencement of the activity when it is clear that it is or has been in operation.
6. Notwithstanding the provisions of paragraphs 3 and 4, the tax administration may ex officio declare the cessation of the activity when it is clear that there is no intention of carrying on the activity, or whenever the taxpayer has declared the commencement of an activity without having an adequate business structure capable of carrying it on.
7. The commencement of activity and cessation of activity declared ex officio by the tax administration under the terms of the previous numbers does not exempt the taxpayer from complying with the respective tax obligations.

Article 59

Authorized deductions

Without prejudice to the limitations foreseen in the following articles, the taxpayer who earns income from business activity is entitled to deduct from this income:

- a) Expenses incurred with the realization of the gross income or for the maintenance of the producing source;
- b) Contributions to a pension fund referred to in article 46;
- c) The extinguishment of debts and related expenses, pursuant to the provisions of article 67;

- d) Capital losses resulting from the disposal of fixed assets, pursuant to article 72.

Article 60

Unauthorized Deductions

Without prejudice to the limitations provided for in the following articles, the following shall not be deductible from business income:

- a) expenses, including payments of income from dependent employment, which have not been properly subject to withholding tax pursuant to Section VI, where such withholding tax is an obligation of the payer;
- b) dividends, in accordance with Section 75
- c) expenses incurred or incurred by an entity for the benefit of a member;
- d) reserves, except as provided in article 103
- e) Health, accident, life or education insurance premiums from which a natural person is the beneficiary, unless such premiums are paid by an employer in respect of a dependent employee and the premium is treated as income of the dependent employee;
- f) Excess compensation, remuneration or fees paid between members, or paid by an entity to a member;
- g) (g) gifts or aids in the nature of a natural obligation excluded from income tax under the provisions of Article 46 (f) and (g);
- h) Income tax incurred in Timor-Leste or abroad;
- i) Expenses incurred for the personal benefit of the taxpayer or his dependents;
- j) Interest charges, unless the taxpayer is a financial institution authorized by or registered with the Central Bank of Timor-Leste;
- k) Fines, late payment interest or any other pecuniary sanction for violation of any law, regulation or norm;
- l) Bribery or any similar amount;
- m) expenses or losses incurred to the extent recoverable under an insurance policy or indemnity agreement; and
- n) Provisions and adjustments for impairments in inventories, except as provided in article 66.

Article 61

Full Competition

1. In commercial transactions, including namely transactions or series of transactions on goods, rights or services, as well as in financial transactions, carried out between a taxpayer and any other person, whether subject to income tax or not, substantially identical terms or conditions must be contracted, accepted and practiced to those that would normally be contracted, accepted and practiced between independent persons in comparable transactions.
2. The tax administration will of its own motion make the corrections necessary for determining the taxable income of taxpayers, if the terms or conditions contracted, accepted or practiced by the taxpayer do not comply with the provisions of the preceding paragraph.

Article 62

Depreciation and amortization of assets with a useful life of more than one year

1. The expenses incurred in connection with the realization, collection or guarantee of income from business activity with an asset whose useful life is more than one year are deducted in accordance with the accounting terms.
2. The provisions of the preceding number shall not apply to taxpayers observing the cash competence criterion, who may deduct directly from business activity income the expenses incurred pursuant to the preceding number.

Article 63

Goods and services partially used in the course of business activities

When the acquisition of a good or service is only partially used in the exercise of taxable business activities, the amount allowed as a deduction is reduced in proportion to its non-business use.

Section 64

Commissions, rebates and discounts

An income taxpayer shall not be granted a deduction for any commission, rebate, discount, prompt payment charge, or similar payment, which constitutes income earned in Timor-Leste by the respective beneficiary, unless:

- a) the taxpayer discloses the name and address of the beneficiary by giving written notice to the tax administration;
- b) The tax administration verifies that the amount in question has been or will be included in the taxable income of the beneficiary.

Article 65
Measurement of inventories

1. The income and expenses of a taxpayer's inventories are those that result from the application of the measurement criteria provided for in the accounting standards, without prejudice to the provisions of the following number.
2. Deductions from the costs of inventories, by way of depreciation, obsolescence, or possible losses in the value of their items, shall not be allowed.

Article 66
Reserves, provisions and impairment losses

1. No deduction shall be allowed in respect of any amount of profits retained by the taxpayer to create a reserve or provision for expenses or expected losses, subject to the provisions of the following number, and Article 103.
2. A deduction is allowed to a financial institution for impairment losses on bad debts, provided that the amount of impairment has been determined in accordance with the prudence requirements defined by instruction of the Central Bank of East Timor.

Article 67
Bad Debts

3. A taxpayer is allowed a deduction in a tax year for a bad debt and related expenses if the following conditions are met:
 - a) the amount of the debt has previously been included in the taxable income of the taxpayer's business;
 - b) the debt is cancelled in the taxable person's accounts during the tax year; and
 - c) the taxpayer has good reason to believe that the debt will not be recovered.
4. The provisions of this article do not apply to a financial institution that is allowed a deduction for impairment losses on doubtful debts, pursuant to paragraph 2 of the previous article.

Article 68
Recovery of amounts previously deducted

Where a previously deducted expense, loss or bad debt is recovered by a taxpayer, the amount recovered shall be included as income in the calculation of the taxpayer's taxable income in the tax year in which the amount was recovered.

Article 69
Long-term Contracts

1. The percentage-of-realization method shall be applied to determine the annual income resulting from a long-term contract.
2. For the purposes of the preceding number, a long-term contract is deemed to be a contract for manufacture, installation or construction, or services related to this end, that does not end in the tax year in which its execution began, and which is not expected to be concluded within six months from the date on which its execution began.

Article 70
Losses

If the determination of the income from business activity in a given tax year results in a loss, this loss may be deducted as an expense in the calculation of the taxable income of the taxpayer until the fifth subsequent tax year, without prejudice to the provisions of article 73.

Article 71
Change in ownership of an entity

1. In the event of a change of 50% or more in the underlying ownership of an entity, the deduction of losses carried forward to subsequent tax years is not allowed, unless the entity:
 - a) carries on, after the change, the same activity as it did before the change until the loss is fully deducted or the right to deduct expires; and,
 - b) Does not start any new activity after the change and until the loss is fully deducted or the right to deduct expires, if there is evidence that the main objective of the entity or its members is to use the loss to reduce the income tax that will be levied on the income obtained with the new activity.
2. For the purposes of the preceding number, underlying ownership is deemed to be the shareholding or right, as a member of an entity, held directly or indirectly, through one or more interposed legal persons, by an individual or by a person not ultimately held by individuals.
3. For the purposes of paragraph 1, the loss carry forward for subsequent years includes the loss carry forwards provided for in the previous article, in article 73 and in article 80.

Article 72
Capital gains resulting from the disposal of fixed assets

1. For the purposes of the final part of no. 3 of article 53, the amount of gross compensation received that exceeds the cost of the element of the asset in question is considered a capital gain arising from the disposal of an element of the fixed asset.
2. For the effects of the provisions of the previous number:
 - a) Fixed assets are deemed to be tangible fixed assets, intangible assets, non-consumable biological assets, investment properties and financial instruments, even if any of these assets have been reclassified as non-current assets held for sale;
 - b) The cost of an asset is the total amount paid or incurred by a taxpayer in its acquisition, production, creation, or construction, and includes any incidental expenses incurred in its alteration or improvement and the fair market value of any compensation in kind in respect of that asset.
 - c) Compensation received on disposal of an asset is the total amount received or likely to be received for that asset, including the fair market value of any compensation in kind for that asset.
3. When a portion of an asset is disposed of, the cost of the asset shall be allocated on a reasonable basis between the portion of the asset retained and the portion disposed of.

Article 73
Deduction of capital losses

1. For the purposes of article 59 d), capital losses arising from the disposal of an element of the fixed asset are deemed to be the amount of the cost of that element of the asset which exceeds the gross compensation received, as defined in no. 2 of the previous article.
2. Capital losses may be deducted exclusively from capital gains obtained in the same tax year and not from other income from business activity.
3. If the provisions of the preceding paragraph result in a negative balance in the year in question, this loss may be carried forward to the fifth subsequent tax year.
4. Losses carried forward to subsequent tax years pursuant to the preceding paragraph may only be deducted pursuant to paragraph 2.

Section IV
Property Income

Section 74
Gross income and deductions from property

1. Income from property is deemed to be dividends, interest, royalties, annuities, rents or other similar amounts derived from the disposal, use or exploitation of property.
2. No tax deductions are applicable to income from property.

Article 75

Dividends

For the purposes of this law, a dividend is considered to be any distribution of profits by an entity to a member as a result of participation in its capital, and includes:

- a) The distribution of surplus by a cooperative;
- b) Any amount returned to a member in respect of participation in that capacity in an entity on a partial reduction of capital to the extent that the amount returned exceeds the amount by which the nominal value of the participation in the capacity as a member has been reduced; or
- c) Any amount distributed to a member by virtue of the redemption or cancellation of an interest in that capacity, including liquidation, to the extent that the amount distributed exceeds the nominal value of the member's interest;

Article 76

Interest

1. For the purposes of the provisions of this law, the following shall be deemed to be interest:
 - a) any amount, including a premium or discount, paid or obtained pursuant to a debt obligation that does not constitute a repayment of principal;
 - b) any amount functionally equivalent to one of the amounts referred to in the preceding subparagraph, such as an amount paid or obtained pursuant to an interest rate swap agreement or as interest on arrears pursuant to a guarantee agreement; or,
 - c) any commitment, guarantee, servicing or similar emoluments payable in connection with a debt obligation or other interest-bearing instrument or arrangement under the preceding subparagraphs.
2. For the purposes of the preceding paragraph, a debt obligation shall be deemed to be an obligation to make a repayment to another person, including accounts payable and obligations arising under a promissory note, bill of exchange, bond, debenture or similar financial instrument;

Article 77

Royalties

For the purposes of the provisions of this law, a royalty is considered to be any amount, regardless of its description or form of calculation, periodic or otherwise, that is consideration:

- a) for the use or right of use of copyright, patent, design or model, secret formula or process, trademark or other similar right;
- b) for the use or right to use cinematographic film, films or video recordings for use in connection with television or Internet broadcasting, or magnetic tape for use in connection with radio or Internet broadcasting;
- c) for the receipt or right to receive visual images or sound recordings, or both, transmitted via satellite, cable, optical fiber or similar technology in connection with television, radio or internet broadcasting;
- d) for the provision of information concerning experience acquired in scientific, technical, industrial or commercial fields;
- e) For the use or right to use any tangible movable property;
- f) the provision of any assistance which is ancillary and subsidiary in nature and which is provided as a means of enabling the application or enjoyment of any good, service or right referred to in points (a) to (e);
- g) refraining from using any part or all of any matter referred to in subparagraphs (a) to (f); or;
- h) the assignment of any good or right referred to in subparagraphs (a) to (g).

Section V

International Aspects of Income Tax

Section 78

Source of Income

1. For the purposes of income tax, the following shall be deemed to be income earned in Timor-Leste:
 - a) all taxable income earned by:
 - i. a resident of Timor-Leste; or by,
 - ii. a non-resident through a permanent establishment in Timor-Leste, under the provisions of section 81;
 - b) Without prejudice to the provisions of paragraph h), income derived from the rendering of services, performed or used in the national territory, to a resident person or to a permanent establishment of a non-resident person located in Timor-Leste;
 - c) Income arising from the rental of immovable property situated in Timor-Leste, whether or not improved, or from any other interest or right in or over immovable property, including the right of research or exploitation of natural resources in

Timor-Leste, being considered as such any mineral or petroleum resources, whether living or non-living, that may be extracted from the soil or from the sea;

- d) Income arising from the alienation of any goods or rights referred to in the preceding subparagraph, or from the alienation of any shareholding or right in an entity whose assets consist, in whole or in part, of goods or rights referred to in the preceding subparagraph
 - e) A dividend paid by a resident entity;
 - f) Income from property, under sections 74 to 77, paid by a resident, or by a permanent establishment of a non-resident situated in Timor-Leste; or
 - g) Income derived from the provision of passenger, mail, or freight transportation services by air or sea:
 - i. Between two places in Timor-Leste;
 - ii. From a place in Timor-Leste to a place outside Timor-Leste; or,
 - iii. From a location outside Timor-Leste to a location in Timor-Leste.
2. Notwithstanding subsection 2.1, any amount taxable in Timor-Leste under an agreement that binds the State internationally shall be deemed to be income earned in Timor-Leste.
 3. Without prejudice to the provisions of the following subsection, income shall be deemed to be earned abroad if it is not income earned from a source located in Timor-Leste.

Section 79

Foreign Tax Credit

1. A resident taxpayer shall be entitled to credit for any foreign income tax that he or she has paid in respect of income earned abroad and which has been included in the taxpayer's taxable income in a tax year.
2. The foreign tax credit referred to in the preceding subsection shall be calculated separately for each foreign country in which the taxpayer derives income, the rules of the preceding article being applicable in determining the country from which the income is derived, and the reference to Timor-Leste shall be construed as a reference to the foreign country concerned.
3. The amount of credit in respect of income earned in each foreign country shall be limited to the tax payable in Timor-Leste on each such income, and no deduction or carry-over to a subsequent financial year of any excess foreign tax credit shall be allowed.
4. The amount of foreign tax paid shall be supported by adequate evidence, such as payment made pursuant to a tax assessment, withholding tax certificate, or other similar document accepted by the tax administration for that purpose.

Article 80
Foreign Source Losses

1. Deductible expenses incurred in obtaining income taxed in a foreign country are attributable only to that income.
2. If the expenses deductible under the terms of the preceding number exceed the gross income earned in a foreign country in a tax year, the excess amount constitutes a loss with respect to that foreign country, and the respective deduction is allowed with respect to the income earned there in the following tax year and until the fifth subsequent tax year.

Article 81
Permanent Establishment

1. A permanent establishment is deemed to be the fixed place through which a non-resident person carries on all or part of his activity, namely:
 - a) a place of management;
 - b) A branch;
 - c) A representative office;
 - d) An office
 - e) A factory;
 - f) A workshop;
 - g) A mine, an oil or natural gas well, a quarry or other place of extraction of natural resources, including a drilling site for mineral exploration;
 - h) A place of fishing, a place for raising animals, a farm, plantation or forest;
 - i) A construction, installation or assembly project;
 - j) The provision of services through employees or other personnel, if it takes place for more than sixty days within any twelve-month period;
 - k) An entity acting as an independent agent; or,
 - l) an agent or employee of a non-resident insurance company, if the agent or employee collects premiums or insures risks in Timor-Leste.
2. The provisions of the preceding paragraph are without prejudice to compliance with the registration, authorization or licensing obligations applicable to the economic activities exercised or to be exercised by the non-resident person in question.
3. The taxable income of a non-resident carrying out business activities in Timor-Leste through a permanent establishment shall be calculated in similar terms as those applicable to residents, with reference to the income attributable:
 - a) to the permanent establishment;
 - b) any sales in Timor-Leste of goods or merchandise that are the same or similar to the goods or merchandise sold through the permanent establishment; and
 - c) Any other business activities carried out in Timor-Leste equal or similar to those carried out through the permanent establishment.

4. In determining the taxable income of a permanent establishment of a non-resident person situated in Timor Leste, the following principles shall apply:
 - a) The income of the permanent establishment shall be calculated for a distinct person carrying on the same or similar activities, under the same or similar conditions and is treated with absolute independence from the non-resident person of which it is a permanent establishment;
 - b) No deduction is allowed for management or general administration expenses, whether incurred in Timor-Leste or outside its territory, unless the deduction is previously authorized by the tax administration
 - c) No deduction is allowed for payments made or to be made by the permanent establishment to its head office or to another permanent establishment of the non-resident person, except in the case of reimbursement of actual expenses incurred by the non-resident person vis-à-vis third parties by way of:
 - i. royalties, fees or other similar payments for the use of items of tangible fixed assets and intangible assets by the permanent establishment;
 - ii. Compensation for any services, including management services, provided to the permanent establishment;
 - iii. interest on loans granted to the permanent establishment, except in connection with a banking activity.
5. The provisions of this article shall not affect the provisions of an agreement that is internationally binding on the State of Timor-Leste.

Article 82

Accounting obligations concerning permanent establishment

1. A permanent establishment of a non-resident shall register with the tax administration prior to the commencement of its taxable activity in Timor-Leste.
2. For the purposes of determining the taxable income of a permanent establishment of a non-resident, its accounts:
 - a) shall compulsorily be determined according to the criterion of economic competence, pursuant to article 55; and,
 - b) Must be recorded and maintained in Timor-Leste, under the terms of section 56.

Section VI

Withholding Tax

Subsection I

Common Provisions for Withholding Tax

Section 83

Nature and operating mechanism

1. Withholding tax is the mechanism of tax substitution through which the person making the payment of a taxable income covered by the following subsections withholds and delivers to the tax administration the tax that falls upon the holder of that income.
2. It is up to the beneficiary of the payment to self-withhold the tax, when the person making the payment is not obliged to withhold the tax and the income is legally subject to withholding tax.
3. In the absence of a special provision, the provisions relating to withholding tax shall apply to self-withholding tax.
4. Withholding tax is withheld by multiplying the gross amount of the payment by the legally prescribed withholding tax rate and deducting this product, which is delivered to the tax administration, from the payment actually made.
5. Self-withholding tax is withheld by multiplying the payment received by the legally prescribed withholding tax rate and remitting the corresponding amount to the tax administration.
6. The withholding tax may have the nature of a tax credit or a definitive nature, under the terms of articles 89 and 90, respectively.

Article 84

Declaration and delivery of the tax withheld by the payer

1. Any person who has withheld tax on a payment made by him in accordance with the provisions of this Section shall, within fifteen days after the end of the month in which the payment was made:
 - a) file a tax withholding return for the tax in question, duly completed in accordance with the instructions of the tax administration; and,
 - b) deliver the tax withheld to the tax administration.
2. Any person who has withheld tax from a payment made by him under the provisions of this section and has delivered the tax withheld to the tax administration shall be deemed to have paid the amount withheld to the recipient of the payment for the purposes of any claim by that person against the payment of the amount withheld.
3. Any tax withheld by a person under the provisions of this section on a payment made by him shall be kept by that person in the name and on behalf of the tax administration.

4. Tax withheld and not yet delivered to the tax administration shall not form part of the assets of the payer in liquidation or bankruptcy, and the tax administration shall have preference in claiming the corresponding claim before any distribution of assets is made.

Article 85

Declaration and delivery of the self-withheld tax by the payment beneficiary

1. Any recipient of a payment who is required to self-hold the tax shall, within fifteen days after the end of the quarter in which the payment was made:
 - a) file a self-retention return for the tax concerned, duly completed in accordance with the instructions of the tax administration; and,
 - b) Deliver the withheld tax to the tax administration.
2. For the purposes of the provisions of the preceding paragraph, quarters are considered to be the three-month periods beginning on the first day of January, April, July, and October of each tax year.
3. Any tax self-retained by a person under the provisions of this section on a payment received by him shall be kept by him in the name and on behalf of the tax administration.
4. The self-retained tax that has not yet been surrendered to the tax administration shall not form part of the assets of the beneficiary in liquidation or bankruptcy, and the tax administration shall have preference in claiming the corresponding credit before any distribution of assets is made.

Article 86

Annual declaration of withholding and self-withholding

1. Without prejudice to the provisions of Articles 84 and 85, a person who has withheld or self-withheld at source in a tax year must file an annual declaration, duly completed in accordance with the instructions of the tax administration, by March 31st following the end of the tax year in question.
2. The annual declaration referred to in the previous number must indicate:
 - a) The global value of the payments made and the amounts of tax correspondingly withheld in respect of each beneficiary, and the respective tax identification number, where applicable; and,
 - b) The global value of the payments received and the amount of tax correspondingly withheld.

Article 87
Tax not withheld

1. The tax administration may at any time make an additional assessment of the income tax owed by a person, when that person receives income that has not been correctly withheld.
2. The tax assessed under the provisions of the preceding paragraph is due and payable by the end of the month following the date on which the person is notified of the assessment.
3. Without prejudice to the provisions of the preceding paragraphs, any person or entity who fails to withhold tax on a payment made by him or her in accordance with the provisions of this Section shall be immediately and jointly and severally liable to the tax authorities for the payment of the amount of tax that has not been withheld and may exercise a right of recourse, in respect of the amount in question, against the recipient of the payment.
4. A person who fails to withhold tax on a payment made by him or her in accordance with the provisions of this Section shall be precluded from deducting the expenditure in question from business income, pursuant to Section 60(a).

Section 88
Excess withholding tax

The tax administration ensures mechanisms for offsetting or refunding the amount of tax that has been proven to have been over-withheld and over-delivered, or unduly withheld and over-delivered.

Article 89
Withholding in the nature of tax credit

When withholding tax has the nature of a tax credit:

- a) The payment beneficiary retains the obligation to file the annual income tax return;
- b) The amount of tax withheld is considered as income earned by the beneficiary of the payment at the time the tax is withheld;
- c) The recipient of the payment benefits from a tax credit for the amount withheld, to be deducted from the tax related to the taxable income for the tax year in which the tax was withheld, in accordance with Article 42(3)(b)
- d) A tax credit or part of a tax credit granted for a tax year, and which is not liable to be credited in accordance with the provisions of Article 42(3)(b), for that year, shall be deemed to be an overpaid tax.

Article 90
Withholding tax of a definitive nature

When the withholding tax is of a definitive nature and has been correctly made according to the terms provided for:

- a) No further tax liability shall be required of the recipient of the payment in respect of the payment on which the withholding tax was levied, including the obligation to include it in the income tax return;
- b) The income on which withholding tax has been levied shall not be aggregated with other income of the recipient for the purposes of determining the applicable tax rate;
- c) No deduction, including any depreciation or amortization deduction, is allowed for any expense or loss incurred in earning the income; and
- d) No refund or credit of tax shall be allowed in respect of such income.

Subsection II
Withholding at source on employment income

Article 91
Scope and subjection

- 1. An employer who pays taxable remuneration in respect of employment performed in Timor-Leste by residents shall withhold the corresponding income tax at source, at the rates set out in Schedule II.
- 2. The withholding tax rates applicable to payments of remuneration to employees who do not hold a tax identification number or do not indicate such number to the employer shall be increased by 5% for each income bracket.
- 3. When remuneration is paid in periods of less than one month, the withholding tax rates applicable under the terms of no. 1 are those that would correspond to the monthly payment of the remuneration in question, calculated proportionally.
- 4. When the payment of monthly remuneration is made together with the payment of outstanding remuneration, or together with Christmas bonus, vacation allowance, or extraordinary payment of one month's additional remuneration, the withholding tax rate shall be calculated separately for the payments concerned.

Article 92
Monthly statement and delivery of the tax withheld by the employer

- 1. The declaration and delivery of the tax withheld follows the provisions of article 84, with the following specificities:

- a) The withholding tax return shall individualize the payments and withholding amounts made in respect of each employee, and shall indicate the respective tax identification number;
 - b) The delivery of the declaration referred to in the previous sub-paragraph is compulsory, regardless of whether or not income tax has been withheld in the month to which it refers.
2. The obligation to deliver the declaration referred to in the previous number only ceases as from the month in which the employer definitively ceases to be obliged to withhold at source.
3. For the purposes of the provisions of the previous number, the definitive cessation of the obligation to withhold tax is declared:
 - a) By the employer itself, in the last withholding tax return it submits;
 - b) The tax authorities, of their own initiative, when they find that the tax return has not been filed for more than a year.

Article 93

Supply of information to employees

The employer who has withheld tax at source on income from employment must provide all workers who request it with a withholding tax return, duly filled out in accordance with the instructions from the tax administration, within 21 days of the end of the tax year or from the end of the employment relationship during the tax year.

Article 94

Termination of the employee's obligation to withhold tax

1. The withholding of tax made under this subsection has a definitive nature, under the terms and for the purposes of Article 90, except in the cases provided for in the following subsection.
2. The tax withheld under this subsection shall be treated as a tax credit, under the terms and for the purposes of article 89, whenever, in the tax year in question:
 - a) the worker has earned income from dependent employment of an aggregate amount equal to or greater than \$39,000; or,
 - b) the worker has earned in the same tax year any income from business activity.

Subsection III

Withholding Tax on Business Income

Article 95

Scope and subjection

1. Income taxpayers who adopt the economic competence accounting criterion, and who make a payment in respect of the transfer of goods or provision of services made in the

course of business activity by a resident or through a permanent establishment of a non-resident, shall withhold tax on the gross amount of that payment, at the rate set out in Appendix III.

2. The rates of withholding tax withheld under the terms of the previous article are increased by 5% when made to a taxpayer who does not hold a tax identification number or does not indicate this to the payer.
3. The withholding tax on the payments referred to in no. 1 will be made by means of the self-withholding mechanism, in accordance with article 85, and the rate aggravation provided for in the previous number will not apply when:
 - a) The payment is made by taxpayers who do not adopt the economic competence accounting criterion;
 - b) The beneficiary of the payment is a person who provides transport services by air or sea.
4. The provisions of paragraph 1 do not cover income excluded from taxation under the terms of article 46.
5. The withholding tax withheld under the terms of this subsection has the nature of a tax credit, under the terms and for the purposes of article 89.

Subsection IV **Withholding Tax on Property Income**

Section 96 **Scope and subjection**

1. Taxpayers subject to income tax who adopt the economic competence accounting criterion, and who make a payment related to dividends, interest, royalties, annuities, rents or other similar amounts arising from the disposal, use or exploitation of property, to a resident or to a permanent establishment of a non-resident, shall withhold tax on the gross amount of that payment, at the rates established in Attachment IV.
2. The withholding tax on the payments referred to in the previous number is made through the mechanism of self-withholding tax, under the terms of article 85, when the payment is made by taxpayers who do not adopt the accounting criterion of economic competence.
3. The provisions of the previous number do not cover income excluded from taxation under the terms of article 46.
4. The tax withheld under this subsection has a definitive nature, under the terms and for the purposes of article 90.

Subsection V
Withholding at source on income from prizes or gambling winnings

Article 97
Scope and subsection

1. Any person who makes a payment of a prize or winnings from gambling, including betting or lottery winnings, to a resident or a permanent establishment of a non-resident situated in Timor-Leste shall withhold tax from the gross amount received, at the rate set out in Schedule IV.
2. The tax withheld under this subsection has a definitive nature, under the terms and for the purposes of Section 90.

Subsection VI
Withholding Tax on Non-Resident Income

Section 98
Scope and liability

1. Any person making a payment to a non-resident of income earned in Timor-Leste, with the exception of payments to which Section 81 applies, shall withhold tax on the gross amount of the payment at the rate set out in Schedule V.
2. For the purposes of the provisions of the preceding paragraph, income earned in Timor-Leste is deemed to be that defined as such in section 78.
3. The withholding of tax made under the present subsection has a definitive nature, under the terms and for the purposes of Section 90.

Section VII
Declaration and Assessment of Income Tax

Section 99
Submission of Income Tax Return

1. The income tax return allows the taxpayer, based on the taxable income declared therein, to self-assess the income tax for the tax year in question, and apply the corresponding tax credits, under the terms of paragraph 3 of article 42.
2. The tax return specifies the various types of taxable income obtained by the taxpayer, including, in the case of income from business activity, the gross income and deductions made, including losses from previous tax years.
3. The tax return does not include income that is exclusively subject to final withholding tax.

4. The following persons must deliver to the tax authorities an income tax return, duly completed according to the instructions of the tax authorities:
 - a) Persons who, in the tax year to which the return refers, are liable to pay income tax under this law;
 - b) Resident or non-resident individuals with a permanent establishment who carry out business activities, even if in the tax year to which the return refers they have not earned any income, have made a loss, or have earned only income subject to definitive withholding tax;
 - c) Resident individuals who, in the tax year to which the return refers, have earned income from dependent work exceeding UD\$39,000, or who, having earned income from dependent work of a lower amount, simultaneously carry out a business activity, under the terms of the previous paragraph;
 - d) Other persons that the tax administration may indicate.
5. The income tax return provided for in this article shall be filed with the tax authorities by April 30th after the end of the tax year.
6. The income tax return of a taxpayer who carries out business activities and applies the economic competence accounting criterion shall be accompanied by the respective income statement, balance sheet and cash flow statement for that tax year.
7. Under the terms defined by ministerial decree, the income tax return provided for in this article may be made by means of confirmation, express or tacit, by the taxpayer, of a tax return pre-filled by the tax administration, based on information of which it has cognizance.

Article 100

Due Date for Payment of Income Tax

Without prejudice to the special provisions regarding the delivery of withholding tax, income tax payable to an income taxpayer for a tax year is due on the date provided for filing the taxpayer's income tax return for the year concerned.

Section VIII

Special Provisions for Taxation of Mining Activities

Section 101

Mining Activities

1. The provisions of this law shall apply to the taxation of mining activities as provided for in the Mining Code, approved by Law No. 12/2021, of June 30, with the specific features set out in this Section.

2. The concepts used in this section are those defined as such in the legislation referred to in the preceding paragraph.

Article 102

Incommunicability of deductible expenses and tax credits

1. The accounting and tax obligations relating to mining activities undertaken within the scope of each prospecting and exploration license, mining contract or mining authorization shall be determined and fulfilled separately, based on the same principle of ring-fencing applicable to the calculation and payment of the mining royalty and surface rent.
2. The provisions of the previous number apply to licenses, contracts or authorizations with the same mining rights holder, and to mining rights holders who carry out an activity other than a mining activity.

Article 103

Closure cost reserve and closure costs

1. By way of derogation from the provisions of Article 66, the establishment or reinforcement of a provision for a reserve for costs of mine closure activities may be deducted from taxable income, in accordance with the following paragraphs.
2. The amount of the provision referred to in the preceding paragraph may not exceed the mine closure costs approved by the regulatory authority.
3. The provisions referred to in the preceding paragraph may be deducted from taxable income from the tax year in which the period of exploitation begins, in accordance with the plan of deductions approved by the tax authorities, after consulting the regulatory authority, and taking into account the exploitation schedule defined in the mining plan.
4. Expenses incurred with mine closure activities shall not be deductible from the taxable income of the taxpayer, except to the extent that they prove to exceed the amount of the provisions deducted under the terms of the preceding paragraphs.
5. If at the end of the mine closure activities, the amounts deducted under this article exceed the costs actually incurred by the mining rights holder with such activities, the excess amount deducted shall be treated as taxable income.
6. Interest on an escrow account, required by contract or law, relating to costs of mine closure activities shall be taxed under the general terms.

Article 104

Withholding tax

1. The withholding tax obligations set out in this law shall apply to payments made by holders of mining rights, without prejudice to the provisions of the following number.
2. Withholding taxes levied by mineral rights holders shall always be final, under the terms and for the purposes of article 90.

Article 105

Consignment of Tax Revenues to the Mining Fund

The general revenues collected by the tax administration with the payments of income tax levied on the exercise of mining activities, and with the deliveries of withholding tax under the previous article, are consigned to the Mining Fund, pursuant to article 154 of the Mining Code, approved by Law no. 12/2021, of June 30.

Chapter II

Tax on acquisitions of real rights over real estate

Article 106

Incidence of the tax on acquisitions of rights in rem over immovable property

Tax on the acquisition of rights in rem over immovable property is levied on the value of the acquisition of rights in rem over immovable property, at the rates stipulated in Attachment VI of this law, of which it is an integral part.

Article 107

Acquisition of rights in rem over immovable property

1. For the purposes of the provisions of the previous article, the following are considered to be acquisitions of rights in rem over immovable property:
 - a) Acts that imply recognition, constitution, acquisition, modification, division or extinction of the rights of ownership, surface, usufruct, use and habitation, emphyteusis, or easement over immovable property;
 - b) The acquisition of the rights referred to in the previous item by usucaption or special usucaption;
 - c) The acquisition of the rights referred to in sub-paragraph a) by final judicial or arbitral decision;
 - d) Businesses of acquisition of ownership of commercial or industrial establishments;

- e) Contracts for perpetual rent or for life annuity, if the thing or right being sold is real estate.
- 2. The following are not considered to be acquisitions of rights in rem over real estate:
 - a) Acts of constitution, modification and distraint of a voluntary mortgage or of consignment of income and of fixing or altering monthly maintenance payments, when they encumber immovable property;
 - b) The partition of immovable property;
 - c) The alienation or repudiation of an inheritance or legacy involving immovable property;
 - d) The assignment of a mortgage or of the priority of its registration, the extinguishment of a mortgage guarantee, and the assignment or pledge of mortgage credits.

Article 108

Taxable person of the tax on acquisitions of rights in rem over immovable property

The taxable person for tax on acquisitions of rights in rem over immovable property is the acquirer of the right in question.

Article 109

Exemption

Without prejudice to the provisions of article 112 (3), the following are exempt from tax:

- a) foreign states, for the acquisition of real rights on buildings intended exclusively for the headquarters of their diplomatic or consular mission, or for the residence of the head of the mission or of the consul, as well as the land for its construction, provided that there is reciprocity of treatment; and,
- b) Acquisitions of real rights over immovable property exempt from taxation under an agreement that binds the State of Timor-Leste internationally.

Article 110

Value of Acquisition

- 1) For the purposes of article 106, the acquisition value of rights in rem over immovable property is the economic value of the right in question, considering as such the total value of the respective consideration.
- 2) When in question is a periodic consideration without a fixed term, the acquisition value is the annual value of the periodic consideration for 20 years.

- 3) When gratuitous acquisitions or notarial deeds are involved, the acquisition value is that which is declared as such by the taxpayer in the statement referred to in article 112.

Article 111

Exceptional evaluation of the value of the acquired right

1. Where there are indications that the acquisition value determined under the terms of the previous Article does not reflect the economic value of the acquired right, the tax authorities will, of their own initiative, carry out the respective appraisal directly through the services of the General Directorate of Land and Property or through experts appointed for that purpose.
2. The appraisal performed under the previous number will take into consideration the nature of the right acquired and its limitations, especially when it involves the acquisition of parcels of property rights.
3. If the unofficial valuation results in an acquisition value greater than that determined under the terms of the previous article, the tax administration will issue the corresponding additional tax assessment.

Article 112

Declaration of the Taxable Person

1. The assessment of the tax on acquisitions of rights in rem over immovable property is the taxpayer's initiative, for which purpose he or she should submit a declaration duly filled out in accordance with the tax administration's instructions.
2. In the declaration referred to in the previous number, the taxpayer should provide the following information:
 - a) The identification of the property in question in the National Cadastre System and in the land registry;
 - b) The value of the acquired right, under the terms of article 110;
 - c) Other information which is indispensable for the exact assessment of the tax or proof of its exemption.
3. The applicability of a tax exemption on the acquisition of rights in rem over immovable property does not exempt the presentation of the declaration referred to in paragraph 1, containing the elements foreseen in sub-paragraphs a) and c) of the previous number.

Article 113

Settlement and Proof of Exemption

1. Based on the declaration referred to in the previous article, the tax administration shall assess the tax due, or issue the corresponding proof of exemption, without prejudice to the provisions of the following number.

2. The tax administration will, of its own motion, assess the tax owed:
 - a) When the taxpayer has not submitted the return referred to in the previous article;
 - b) When the return has not been correctly filled out; or
 - c) In the cases referred to in article 111.
3. The issue of an ex-officio assessment of the tax owed does not prejudice the calculation of interest and penalties to which it may be subject, nor, in the cases mentioned in sub-paragraphs a) and b) of the previous number, the joint and several liability to which it may be subject pursuant to article 8.

Article 114

Payment

The tax is paid within 90 days from the date of notification of assessment, without prejudice to the provisions of Article 118.

Article 115

Consequences of Lack of Payment

1. Tax which has been assessed, either on the initiative of the taxpayer or ex officio by the tax administration, and which has not been paid within the legal period, shall be subject to forced collection, under the general terms, without prejudice to the provisions of articles 118 to 120.
2. The disposal by the taxpayer of the right in rem underlying a tax assessment does not exempt the respective payment

Article 116

Privilege of movable and immovable property

In the enforced collection of tax on the acquisition of rights in rem over immovable property, the tax authorities will enjoy the credit privilege provided for in Article 678.2 of the Civil Code for property transfer tax.

Article 117

Vicissitudes

1. If the acquisition of the right in rem underlying a tax assessment made on the initiative of the taxpayer does not take place within 90 days of the date of payment of the tax in question, the tax administration will annul the assessment and determine the respective refund.
2. For the purposes of the provisions of the previous number:
 - a) The taxpayer shall be responsible for requesting the annulment of the assessment; and,

- b) The tax authorities are responsible for liaising with the services of the Directorate General of Registry and Notary Services in order to:
 - i. Confirm in advance that no public deed or registration was executed that had the object of the acquisition of the right in question by the taxpayer; and,
 - ii. Subsequently notify the annulment of the assessment in question so that it is not unduly considered under the terms and for the purposes of articles 118 and 119.

Article 118

Cooperation obligations of notaries and other entities

1. Without detriment to the provisions of paragraph 3, notaries and other persons performing notarial functions cannot draw up the public deeds that deal with the transfer of rights in rem over immovable property subject to tax without the following being presented to them:
 - a) A copy of the declaration referred to in article 112
 - b) Settlement of the corresponding tax; and
 - c) Proof of the respective payment.
2. The documents referred to in the previous number are filed together with the public deed to which they refer, in the preparation of which express mention must be made of this fact.
3. In the case of exemption, the entities mentioned in number 1 must demand the corresponding supporting document, which must be filed under the terms foreseen in the previous number.
4. The tax administration may at any time, without special formalities, and free of notary fees, consult public deeds whose direct or indirect object is the transmission of rights in rem over immovable property.
5. Notaries and other persons performing notarial functions are jointly and severally liable with the taxpayer for the payment of the tax, whenever they execute public deeds subject to tax on the acquisition of rights in rem over immovable property, without having demanded the documents proving the respective payment or the respective exemption.

Article 119

Registration of Acquisitions of Real Rights over Immovable Property Subject to Tax

Under the terms and for the purposes of article 83 of the Real Estate Registry Code, approved by Decree-Law no. 14/2022, of April 6, no acquisition subject to tax on acquisitions of rights in rem over immovable property can be definitively registered without the documents proving the respective payment or respective exemption having been presented.

Article 120
Non-attendance of documents or titles

No documents or certificates regarding acquisitions for which tax should have been paid on acquisitions of rights in rem over immovable property, without proof that payment has been made or that they are exempt from it, can be filed in court or before any public authorities or services of the State, whether personalized or not.

Chapter III
Circulation Tax

Article 121
Incidence of circulation tax

The circulation tax is levied annually on the ownership of light and heavy motor vehicles circulating in the public domain, in the amounts established in Exhibit VII.

Article 122
Motor Vehicles

For the purposes of the provisions of the previous article, light or heavy motor vehicles are considered to be those classified as such under articles 99 and 100 of the Highway Code, approved by Decree-Law no. 6/2003, of 3 April.

Article 123
Subjective Incidence

1. The taxable person for circulation tax is the owner of the vehicle, as registered in the national vehicle registration system, on 31st December of the year prior to the year to which the payment refers.
2. In the case of a transfer of ownership of the vehicle, the purchaser is responsible for ensuring that the circulation tax for the year of acquisition has been paid, under penalty of being jointly responsible for the lack of payment.

Article 124
Exemption and exclusion from taxation

1. The State and its personalized services are exempt from circulation tax.
2. Ownership of the following is not subject to circulation tax
 - a) Public passenger transport vehicles, namely cabs, *microlets*, *biscotas* and *angunas*.
 - b) Vehicles covered by the regime of tax benefits on the import of automobiles by diplomatic and consular missions and their employees, approved by Decree Law 6/2007, of August 22;

Article 125

Settlement and payment

1. The assessment of the circulation tax is carried out by the tax administration, on the initiative of the taxpayer, and depends on the identification of the vehicle to which the tax payment refers, through the indication of the respective class and registration number, but does not depend on proof of the respective ownership or presentation of the respective documents.
2. The circulation tax is paid annually, between October 1st and December 31st of the year preceding the year to which the tax refers.

Article 126

Inspection

1. The competent services of the National Directorate of Land Transport shall carry out periodic inspections of the vehicle on presentation of prior payment of the circulation tax on the vehicle in question.
2. The National Police of Timor-Leste shall be responsible for inspecting, at all times, the payment of the road tax for the current year in relation to vehicles circulating in the public domain.
3. Failure to pay the road tax within the legal time limit determines the seizure of the vehicle's documents until the respective payment is made, plus applicable penalties.

TITLE III

CUSTOMS DUTIES

Chapter I

Customs Duties on Importation

Article 127

Incidence of customs and importation rights

The customs import rights are levied on the customs value of the goods imported into Timor-Leste, as determined under the terms of the customs legislation, at the rate indicated in Exhibit IX.

Article 128

Subjective Incidence

1. The importer of goods is a taxpayer of the customs import rights, under the terms of the customs legislation.
2. For goods exempt from import customs duties under the following Article, if the taxable person transfers ownership or possession of the goods concerned to another person,

who shall be subject to import customs duties, the transfer of ownership or possession of the goods to that person shall be treated as an importation of goods by that person.

3. The person transferring ownership or possession of the goods and the person to whom the ownership or possession is transferred shall be jointly and severally liable to pay customs import rights as a result of the transaction referred to in the preceding paragraph.

Article 129 **Exemption**

1. The following goods are exempt from import customs duties:
 - a) If the goods accompany an adult person arriving in Timor-Leste from another territory:
 - i. Tobacco and other tobacco products, up to a maximum limit of 200 cigarettes, 100 cigarillos with a maximum weight of 3 grams per unit, 25 cigars, 250 grams of minced tobacco, or a proportional assortment of these different products
 - ii. Up to 2.5 liters of taxable beverages;
 - iii. Goods of a non-commercial nature and of a value of less than US\$ 500, except jewelry, intended solely for the traveler's personal use or enjoyment or to be given as a gift, when the nature and quantity of the goods indicate that they are not and are not intended to be imported for commercial purposes;
 - iv. Domestic belongings that accompany former residents in Timor-Leste who return to reside permanently in Timor-Leste;
 - b) Goods that are exempt under an agreement binding the State of East Timor internationally;
 - c) Goods that are donated, or used in the production or construction of goods that are donated, to the State by foreign States, by public legal persons of foreign States, or by international organizations
 - d) Weapons and ammunition intended for the National Police of Timor-Leste (PNTL), the Criminal Investigation Police (PCIC) and the FALINTIL - Defense Forces of Timor-Leste;
 - e) Goods, with the exception of goods subject to excise duty under the following chapter, imported by charitable organizations registered under any Timor-Leste legislation enacted for that purpose, where such goods are intended to be used for humanitarian assistance, education or health care purposes;
 - f) Goods re-imported in the same condition in which they were exported;

- g) Goods temporarily imported, as long as the importer provides a guarantee for customs import rights under the required conditions.

Chapter II Excise Tax

Article 130 Incidence of Excise Duty

1. Without prejudice to the provisions of the following article and the customs legislation, excise tax shall be levied on goods listed in the table set out in Appendix IX, which:
 - a) Are imported into Timor-Leste;
 - b) Are removed from a warehouse by a registered producer and intended for consumption in Timor-Leste.
2. The amount of excise duty shall be that which corresponds to the goods concerned in the table included in the annex referred to in the preceding number.
3. When goods are imported or removed from the warehouse of a registered producer in a container, package or container intended for sale together with the goods, the goods shall not be deemed to contain a quantity lower than the quantity indicated therein, for the purposes of determining the excise duty applicable to the goods concerned, whenever:
 - a) the assessment of the excise duty under the table referred to in the preceding paragraphs has as a reference a certain quantity calculated according to volume or weight; and,
 - b) The container, packaging or receptacle bears a label, tag or is usually sold with the indication that it contains, or is deemed to contain, a specific quantity of the goods concerned.

Article 131 Goods not subject to excise duty

1. The following are not subject to excise duty
 - a) goods imported into Timor-Leste that are exempt from customs import duties; or,
 - b) Goods exported from Timor-Leste within 28 days of their production or import, provided that the excise taxpayer delivers to the tax administration a document proving that the goods have been exported.
2. The tax administration may extend the 28-day period provided for in paragraph 1(b) of this Article, upon written request by the exporter, when it concludes that:

- a) Circumstances beyond the exporter's control have prevented or are likely to prevent the export within 28 days of the production or importation of goods to which this Article applies;
 - b) Because of the nature of the goods or the conditions under which they are to be exported, it will not be possible to export the goods to which this Article applies within 28 days of their production or importation.
3. For the purposes of paragraph 1(b) of this Article, only the proof of export document shall be accepted which:
- a) is certified as correct by the customs control services;
 - b) It is delivered to the tax administration within 28 days from the production or import of the goods for which exemption from excise duty is requested.

Article 132

Value of excisable goods

When the calculation of excise duty does not have as a reference a certain quantity calculated according to volume or weight, the respective tax value shall be as follows:

- a) With respect to goods imported into East Timor, the customs value of the goods, plus any applicable customs import duties under Chapter I of this Title;
- b) With respect to goods removed from a warehouse by a registered producer and intended for consumption in East Timor, the fair market value of the goods at the time of their removal from the warehouse, pursuant to the customs legislation.

Section 133

Excise Taxable Persons

The following are excise taxpayers:

- a) The person who imports excisable goods into Timor-Leste;
- b) A registered producer excising excisable goods destined for consumption in Timor-Leste from a bonded warehouse.

Article 134

Non-requirement for tax

1. Excise duty shall not be required to be paid by a registered producer in respect of goods:
- a) which have been lost, rendered unusable or destroyed by unforeseeable circumstances or force majeure, prior to their departure from the producer's warehouse, provided that there has been no gross negligence on the part of the producer; or,
 - b) Which have been rendered useless or destroyed under customs control.

2. For the purposes of the provisions of paragraph a) of the previous number, the registered producer shall communicate the fact to the tax administration until the second following working day, for the purposes of possible confirmation of the occurrence or verification of the respective circumstances.
3. For the purposes of paragraph 1, sub-paragraph b), the registered producer communicates to the tax authorities, at least seven days in advance, the method, place and date in which the goods will be destroyed or rendered useless.

Article 135 **Registration and approval of warehouses**

1. Whoever wishes to exercise the activity of producing goods subject to excise duty in Timor-Leste shall apply to the tax administration, in accordance with the required formalities and requirements, for the respective registration as producer of such goods.
2. The tax administration shall register such person provided that it is satisfied that he or she is engaged in the business of manufacturing excisable goods and complies with the obligations imposed under the legislation relating to registered producers.
3. The registered producer must notify the tax administration in writing of:
 - a) The date on which any change occurs in its legal nature, name, address, place of business, or nature of the main activity or activities carried out, including a relevant change in the nature or quantity of the excisable goods produced;
 - b) Any discrepancy between the actual inventory and the recorded inventory;
 - c) The date on which he ceases to trade or temporarily ceases his activity in a situation other than as provided for in paragraph 6.
4. The notification referred to in the previous number must be addressed to the tax administration, within the following timeframe:
 - a) In the case of a notification referred to in subparagraph a) or c) of the preceding paragraph, no later than 21 days after the occurrence of the fact;
 - b) In the case of a notification referred to in sub-paragraph b) of the previous number, as soon as the producer becomes aware of the said discrepancy.
5. The discrepancy between the actual inventory and the registered inventory is only considered justified, for the purposes of non-enforceability of the tax, in the cases set out in the previous article.
6. The registered producer who ceases the production of goods subject to excise duty must notify the tax authorities of this fact in writing within seven days of the date of cessation, indicating:
 - a) the date on which the producer ceased production of the excisable goods;
 - b) The date on which the producer anticipates that there will be no more excisable goods in his bonded warehouse;

- c) Whether or not he intends to restart the production of excisable goods within twelve months from the date referred to in the previous sub-paragraph.
- 7. Upon receipt of a notification under the previous number, the tax administration shall cancel the registration of the producer, by written notice, with effect from the first day on which there are no more goods subject to excise duty in the producer's warehouse, unless it has valid reasons to believe that the producer will restart production of goods subject to excise duty at any time within twelve months from the date provided for under subparagraph b) of the previous number.
- 8. Any and all obligations or duties, imposed on a producer while registered, including the obligation to pay excise duty and to submit the respective returns, shall not be affected by the cancellation of the producer's registration.
- 9. A registered producer who disposes of his activity of production of excisable goods on a going-concern basis shall notify the tax administration of this fact in writing at least three days before the date on which:
 - a) the sale is completed;
 - b) the acquirer obtains a legal interest in the asset items to be acquired;
 - c) The assets belonging to the operating company are transferred.
- 10. The registered producer must apply to the tax administration, in accordance with the required formalities and requirements, for approval of a warehouse as a customs warehouse.
- 11. The tax administration shall approve the registered producer's warehouse as the customs warehouse for the production and sale of excisable goods if it is satisfied that the warehouse meets the necessary requirements set out in the customs legislation.

Article 136

Payment of Excise Duty

- 1. Excise duty is paid at the time the goods are released for free circulation, pursuant to the customs legislation.
- 2. The tax administration shall determine the procedure for the payment of excise duty due on imported goods.
- 3. With regard to the situations provided for in article 130(1)(b), the registered producer shall deliver to the tax administration, until the fifteenth day after the end of the calendar month in question:
 - a) A duly completed excise tax return in accordance with the instructions of the tax administration;
 - b) The amount of excise duty due on the goods subject to excise duty which have left the producer's warehouse during the calendar month concerned.

4. The obligation to submit the declaration referred to in paragraph a) of the previous number only ceases from the month in which the registered producer ceases the production of goods subject to excise duty and there are no more goods subject to excise duty in the respective bonded warehouse.

Article 137 **Relief for raw materials**

1. If the tax administration finds, on the basis of a declaration issued by a registered producer in the prescribed form, that goods subject to excise duty, whether imported into Timor-Leste or produced in Timor-Leste, are intended to be used by the registered producer as raw materials in the production of other goods subject to excise duty, it may require the producer to provide such security as it considers appropriate in respect of such goods in lieu of full payment of excise duty.
2. If the tax administration finds that the goods to which the provisions of subsection 1 of this section have been applied have been used as a raw material for the production, in Timor-Leste, of other goods subject to excise duty, it may deduct any guarantee deposit made under the terms of the preceding subsection from the excise duty payable on the exit of those other goods from the producer's warehouse.
3. If the tax administration finds that the goods to which the provisions of paragraph 1 of this Article have been applied have been used for a purpose other than as raw materials in the production of other goods subject to excise duty, it may apply any security deposit made as payment of the excise duty that would have been due had it not been for the decision taken by the tax administration under the provisions of paragraph 1 of this Article.

TITLE IV **TRANSITIONAL AND FINAL PROVISIONS**

Chapter I **Transitory Provisions**

Article 138 **Tax procedure, infractions and sanctions**

The legal regime for the tax procedure regarding the collection and recovery of tax provided for in UNTAET Regulation No. 18/2000, of 1 July, as amended, and in UNTAET Directive No. 2/2001, of 31 March, as well as the provisions on infractions and sanctions provided for therein, shall remain applicable until the entry into force of the decree-law that defines them, to the extent that they have not been subject to derogation by law.

Article 139
Expenses, losses or bad debts previously deducted

The reference in Article 67 to an expense, loss or bad debt previously deducted includes an expense, loss or bad debt deducted under the repealed legislation.

Article 140
Transitional withholding tax regime

1. During the tax year 2024, the withholding tax rate on income from business activity set out in Annex III is 3%, and the aggravation provided for in Article 95(2) does not apply.
2. During tax year 2024, the aggravation provided for in article 91(2) shall not apply to withholding tax on income from employment.

Chapter II
Final Provisions

Article 141
Regulation

1. The necessary regulations for the effective implementation of the provisions of this law shall be approved by Government decree, without prejudice to the provisions of the following paragraphs.
2. The members of the Government responsible for the area of finance and for the area of land and property may, by joint ministerial decree, determine the criteria to be considered in the exceptional assessment of the value of rights in rem over immovable property referred to in Article 111.
3. The following shall be approved by ministerial statute of the member of the Government responsible for the area of finance:
 - a) The alternative forms of payment of the tax debt, referred to in article 18;
 - b) The procedures for issuing the tax identification number, and the information and identification elements necessary for this purpose, referred to in article 25, no. 4
 - c) The forms, procedures, information, and authentication mechanisms necessary to issue certificates of tax status, as well as the respective periods of validity, and the circumstances in which certificates of tax status may be obtained in person, or the categories of taxpayers who, due to their nature, lack of means, or presumed digital illiteracy, are exempt from obtaining them by any other means, as referred to in Article 27, paragraphs 3 and 4
 - d) The fees payable for the provision of binding information, referred to in article 28, number 3;
 - e) The statement obligations that, as an alternative to being fulfilled by electronic data transmission, may be fulfilled in person, or the categories of taxpayers that, due to

- their nature, lack of means, or presumed digital illiteracy, are exempt from fulfilling them by another means, referred to in number 2 of article 38; and;
- f) The terms under which the income tax return may be made through the express or tacit confirmation by the taxpayer of a return pre-filled out by the tax administration, based on the information of which the tax administration may of its own motion have knowledge, as referred to in no. 7 of article 99.
4. In relation to taxes which are not administered by public services under the supervision of the member of the Government responsible for the area of finance, the ministerial decrees referred to in sub-paragraphs c) to e) are approved by the member of the Government responsible for the public service in question.

Article 142

Revocation

1. Law no. 8/2008, of June 30, as amended by Law no. 5/2019, of August 27, is hereby revoked, with the exception of article 94, and the special provisions applicable to the taxation of oil and gas, set out in the respective articles 65 to 90-E, which remain in force with the scope defined in the respective articles 3 and 69.
2. For the purposes of applying the provisions referred to in the preceding paragraph, Articles 36 and 37 of Law 8/2008, of June 30, as amended by Law 5/2019, of August 27, shall remain applicable.

Article 143

Application in Space

1. The present law shall apply to the territory of East Timor, including its territorial sea, its exclusive economic zone and continental shelf, without prejudice to the provisions of the previous article.
2. The present law shall apply to the Special Administrative Region of Oe-Cusse Ambeno, until special tax legislation expressly derogating from it is approved under article 29 of Law No. 3/2014, of June 18, as amended by Law No. 3/2019, of August 15, and Law No. 2/2022, of February 10.

Article 144

Entry into force

This law shall enter into force on the day following its publication, and shall take effect as of January 1, 2024.

Approved on..

The Speaker of the National Parliament,

Promulgated on

Unofficial translation

To be published.

The President of the Republic.

Annex I
(Referred to in article 42)

Income tax rates

The income tax rates applicable to a resident or permanent establishment of a non-resident are progressive, as follows:

Value of annual income	Taxes
Up to 13 times the national minimum wage	0%
On the part exceeding 13 times the national minimum wage and up to US\$ 6,500.00	1%
Over the portion above US\$ 6,500.00 and up to US\$ 9,750.00	5%
Over US\$ 9,750.00 and up to US\$ 19,500.00	7,5%
Over US\$ 19,500.00 and up to US\$ 39,000.00	10%
Over US\$39,000.00 and up to US\$65,000.00	12,5%
Over US\$ 65,000.00	15%

Annex II
(Referred to in article 91)

Withholding Tax Rates on Employment Income

Withholding tax rates on employment income earned by a resident or permanent establishment of a non-resident are progressive, as follows:

Amount of monthly remuneration, including non-salary benefits	Taxes
Up to the amount of the national minimum wage	0%
Over the portion above the national minimum wage and up to US\$ 500.00	1%
Over the portion above US\$ 500.00 and up to US\$ 750.00	5%
Above US\$ 750.00 and up to US\$ 1,500.00	7,5%
Over US\$ 1,500.00 and up to US\$ 3,000.00	10%
Over US\$ 3,000.00 and up to US\$ 5,000.00	12,5%
Over US\$ 5,000.00	15%

Annex III
(Referred to in Article 95)

Withholding tax rates on business income

The withholding tax rate on payments relating to transfers of goods and services made in the course of business activity by a resident or permanent establishment of a non-resident is 5%.

Annex IV
(Referred to in articles 96 and 97)

Withholding tax rates for other income

The withholding tax rates for income earned by a resident or permanent establishment of a non-resident that is not income from employment or business activity are as follows:

Nature of taxable income	Taxes
On interest and royalty payments	15%
On rent payments	15%
On payments of prizes and gambling winnings	15%

Annex V
(Referred to in article 98)

Withholding tax rates on income earned by non-residents without permanent establishment

The withholding tax rate for income earned by non-residents without a permanent establishment is 15%.

ANNEX VI
(Referred to in article 106)

Tax rate on acquisitions of real rights over immovable property

The tax rate on acquisitions of rights in rem in immovable property is 5%.

ANNEX VII
(Referred to in Article 121)

Amount of circulation tax

The amount of circulation tax varies according to the class of vehicle, as follows:

Car class	Taxes
Light cars	US\$ 15
Heavy cars	US\$ 25

Annex VIII
(referred to in Article 127)

Rate of customs duty on import

The rate of customs duty on importation is 8%.

Annex IX
(Referred to in Article 130)

Excise duty amounts

Without prejudice to the provisions of special investment agreements, the amounts of excise duty shall be as follows:

Heading of the Harmonized Commodity Description and Coding System	General Description of Goods	Tax Ammounts
1701-1704	Sugars and sugar confectionery	US\$ 1,00 / Kg
2202	Waters, including mineral waters and aerated waters, containing added sugar or other sweetening matter or flavoured, and other non-alcoholic beverages, not including fruit or vegetable juices of heading 20.09.	US\$ 3,00 / litter
2203.00.10	Beer made from malt with an alcohol content of less than 4.5%.	US\$ 2,70 / litter
2203.00.20	Beer made from malt with other alcohol content	US\$4,50 / litter
2204-2206	Wine, vermouth and other fermented beverages (e.g., cider, perry)	US\$ 4,50 / litter
2207, 2208	Ethyl alcohol (undenatured) and other alcoholic beverages	US\$ 8,90 / litter
2401-2403	Tobacco and other tobacco products	US\$ 100 / Kg
2710	Gasoline, diesel and other petroleum derivatives	US\$4,50 / litter

8703	Passenger cars whose value exceeds US\$10,000	10% of the value exceeding \$10,000 20% of the value exceeding \$25,000 30% of the amount exceeding \$50,000
9301-9307	Arms and ammunition, except captive-bolt guns for slaughtering animals, tariff item 9303.90.00	200% of value
9613	Smoking lighters	12% of value
9614	Smoking pipes	12% of value
9706	Pleasure boats and private aircraft	20% of value