

**ANNUAL REPORT OF THE  
EAST TIMOR REVENUE SERVICE  
FOR THE YEAR ENDED  
31 DECEMBER 2000**

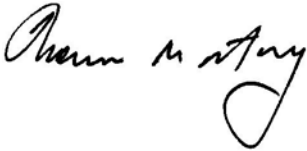


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<sup>1</sup> Photograph of Dili District ETRS Staff – November 2000

**Head of the Central Fiscal Authority**

Pursuant to section 8 of UNTAET Regulation 2000/18, I submit the first annual report on the operations of the East Timor Revenue Service for the year ended 31 December 2000.

A handwritten signature in black ink, appearing to read "Thomas M Story". The signature is written in a cursive style with a large, looped initial 'T'.

**(Thomas M Story)**  
**INTERIM COMMISSIONER**

**East Timor Revenue Service**

May 2001

### *Commissioner's Overview*

The East Timor Revenue Service (ETRS) was created as an independent agency within the Central Fiscal Authority from 1 July 2000. This is the first report of its operations. It represents an important step in introducing accountable and transparent taxation administration for the people of East Timor.

Under section 8 of Regulation 2000/18, I am required to report to the Transitional Administrator annually, and on matters prescribed in the Regulation, on the operations of the ETRS. The Appendices to this report show the information prescribed by Regulation.

The ETRS administers for the East Timor Transitional Administration, a range of taxes, excluding those administered by my delegated authority to the Border Service Controller under Section 6 of UNTAET Regulation 2000/18. For the year ended 31 December 2000, the taxes administered by the ETRS are a Services Tax, Income Tax and taxes payable in the area covered by the Zone of Cooperation in the Timor Sea. The collections outlined in this report are detailed at Appendix 1 against these sources of revenue.

During the Year 2000, the Transitional Administrator approved three separate UNTAET Regulations affecting the taxation system. The first was UNTAET Regulation 2000/18 of 30 June 2000. This introduced the administrative machinery for the taxation system in East Timor, creating the East Timor Revenue Service, as well as introducing a new taxing measure – a tax on services.

The second was UNTAET Regulation 2000/32 of 29 September 2000. This outlined the income tax applying to businesses for the 2000 tax year, which is to be collected on an assessment basis during 2001.

The third was UNTAET Regulation 2000/35 of 20 December 2000. This regulation introduced the wage income tax for the year 2001 as well as withholding taxes on certain categories of income payment.

On the day of its inception, the ETRS started with a very small operational presence of just four persons. By 31 December 2000, the ETRS had grown to 43 persons, 32 of whom are East Timorese national staff.

From the most modest beginnings, the ETRS has established a basic taxation administration with the assistance of many persons and organisation. In particular, I wish to record my thanks to AusAID, the Government of Japan, the International Monetary Fund and the Banco Nacional Ultramarino for providing very practical assistance at this important introductory phase.

## **Resources**

The ETRS is a department within the Central Fiscal Authority. The East Timor Consolidated Budget for the ETRS for the year ended 30 June 2001 provides for a national staffing level of 54 by 30 June 2001. This figure is to be achieved through a stepped recruitment process during the fiscal year. At 31 December 2000, the national staffing level was 32.

In addition, the ETRS received support from UNTAET for the provision of five international staff and one UNTAET local staff member as at 31 December 2000. The International Monetary Fund provided continuous legal assistance and one technical advisor with the joint support of the Government of Japan and UNTAET. The Australian Government's Interim Capacity Building Program for East Timor has supported an additional five specialist taxation advisors to provide resources in key areas of taxation administration.

The Budget of the ETRS is shown at Appendix 2. Details of the number and level of staff are also indicated at Appendix 2, as are the costs of administration and costs of collection.

## **Organisation**

Under Section 4 of Regulation 2000/18, the Transitional Administrator must appoint the Commissioner of Taxation and may appoint Deputy Commissioners. The Transitional Administrator has made the following appointments under Section 4:

1. Mr Thomas Story as Commissioner of Taxation effective from 30 June 2000.
2. Mr Graham Burnett as Deputy Commissioner effective from 30 June 2000.
3. Mr Graham Daniel as Deputy Commissioner effective from 1 December 2000.

The ETRS is organised into two divisions. The Large Business Division (LBD) is headed by Mr Daniel and is responsible for the taxation affairs of those taxpayers with gross annual receipts exceeding \$1million. The LBD covers the taxation obligations of the participants in Area A of the Zone of Cooperation in the Timor Sea. The Operations Division is headed by Mr Burnett and is responsible for all other taxpayers. The organisation Chart for the ETRS is at Appendix 3.

Large Business taxpayers are administered from the Head Office of the ETRS in Dili. Three District Offices for the ETRS are planned, within the Operations Division. Each District Office will provide regional enquiry, and inspection services. All accounting and assessment functions for non-large taxpayers were conducted from the Dili District Office during the Year 2000. Temporary accommodation for the Dili District Taxation Office was made available during the Year 2000, with permanent accommodation now under construction. In the year 2001, a District Taxation Office for Baucau will open. Plans for the third office at Maliana are at an advanced stage. In the Districts excluding Dili, the District Finance Officers provide taxation administration assistance.

## **Services Tax**

Under provisions contained in Regulation 2000/18 of 30 June 2000, ETRS was required to administer a new taxation measure, Services Tax, on hotels, restaurants, telecommunications and transport rental providers. The tax applied during the year 2000 on service providers, excepting restaurants that had total sales in excess of \$500 per month. For restaurants, the taxable sales threshold was \$1000 per month.

The start of the new tax coincided with the date of formal commencement of the ETRS i.e. 1 July 2000. The administration of the Services Tax was a demanding operation for a fledgling organisation. The absence of postal services and uncertain physical addresses for business premises has resulted in all registration processes requiring personal visits by ETRS staff to the taxpayers. The difficulties experienced in information dissemination were exacerbated by the late approval of the enabling UNTAET Regulation.

Despite these problems, we have achieved satisfactory levels of registration and compliance with the new tax. At 31 December 2000, there were 53 businesses in the designated industries registered for Services tax. Levels of awareness of the tax amongst the business community are considered adequate.

Collections for the year to 31 December 2000 total \$1.2m. Collections for Services Tax are detailed at Appendix 1.

## **Income Tax**

Provisions in UNTAET Regulation 2000/32 dated 29 September 2000 introduced the framework for an income tax for the year ended 31 December 2000. The Regulation introduced a modified version of the income tax applicable under Regulation 1999/1 arising under the previous Indonesian tax regime. The income tax is to be collected on an assessment basis through lodgment of income tax returns by 30 April 2001. Only businesses with a taxable income in excess of \$20000 will pay income tax for the Year 2000.

Income taxes are administratively complex and demand significant documentation and administrative support from the revenue authority. The ETRS prepared for the introduction of income tax through a visitation and survey program for businesses in Dili in December 2000. In addition, the ETRS prepared guides for income tax, question and answer material on income tax, and the preparation of a comprehensive UNTAET Directive that was issued in 2001. These materials are available on the ETRS web site at [www.gov.east-timor.org/fbea/](http://www.gov.east-timor.org/fbea/) or from our offices in Dili.

## **Wages Income tax**

Provisions in UNTAET Regulation 2000/35 dated 20 December 2000 introduced the wages income tax from 1 January 2001. As with the business income tax, the ETRS commenced a registration program for all potential employers in December 2000 to inform them of their new obligations. Because of the late promulgation of this Regulation, employers frequently reported that they would have difficulties meeting the 1 January start date for the wages income tax.

## **Taxes payable from the Timor Sea**

For the year ended 31 December 2000, the ETRS collected \$2.47m in taxes accumulated in accounts of the major contractor operating in the Timor Sea. These are detailed at Appendix 1. A major factor affecting collection is the availability of concessions applicable in Double Taxation Conventions that were signed by the Republic of Indonesia. ETRS obtained expert legal opinion that these concessions retained “domestic force” under Regulation 1999/1, in the absence of regulatory action by UNTAET to the contrary. The contractors operating in the Timor Sea have sought these concessions in their determination of accumulated liabilities payable to the Transitional Administration.

## **Registration of Charitable Organisations**

Under Regulation 2000/35 of 20 December 2000, and Directive 2000/7 of 21 November 2000, I am required to establish and maintain a Register of Qualifying Charitable Organisations that are entitled to taxation exemptions or concessional treatments with respect to various taxes from 1 January 2001. The register is to form part of the public record of East Timor.

The late approval of all the relevant legislative machinery has again made compliance by 31 December 2000 impossible. The ETRS commenced work on the registration process in November 2000 and established the administrative means for an interim registration from 1 January 2000 for Qualifying Charitable Organisations.

## **Taxation Payments**

As a means of improving security over taxation payments, UNTAET Regulation 2000/18 provides a strict prohibition on staff of the ETRS acting as collectors of taxation payments. Taxation payments are to be delivered to the Central Payments Office or its nominated agent. The ETRS established secure facilities for receipting of taxation payments through the banking system. Banco Nacional Ultramarino provided these services.

In East Timor, there are a small number of offshore taxpayers that represent a significant revenue stream. An electronic payment system was established in late 2000 to facilitate

these payments through the international banking system and the Central Payments Office.

### **Taxpayer Education**

Taxation laws are often complex and difficult to understand. The ETRS prepared Explanatory Memoranda for each of the three new tax regulations that were approved in the year 2000. These documents are intended for National Council members and for public distribution. The documents are expressed in a question and answer format and attempt to clearly describe each new taxation regulation.

Many taxation guides and brochures were produced by ETRS during the year and are available at our web site.

The ETRS conducted personal visits to businesses to seek registration for taxation purposes and inform them of the new taxation system. Tax Identification Numbers (TINs) are the primary identifier that are issued to taxpayers following these visits. For the year under review, business registrations totaled 295 for purposes of services tax and income taxes at 31 December 2000.

Taxpayer education requires an emphasis not only on the structure and details of the new taxation but also a comprehensive explanation on why taxation is necessary in East Timor. This explanation is particularly important for persons resident outside Dili. A small number of advisory visits to local communities were conducted during the year 2000. This area of activity needs continuing attention in year 2001.

### **Factors Affecting Compliance with the Tax System**

There have been criticisms from the business community that the business income tax is retrospective. Regulation 2000/32 was not promulgated until 29 September 2000 but incorporates income tax measures applying under Regulation 1999/1 with modification. I am concerned that the business community could not be fully informed about the income tax until late in the year and we have attempted to advise business through local forums such as the Chamber of Commerce and the Information evenings of the Investment Institute. Information is also available on our web site.

The most significant factor that will affect the level of compliance with the business income tax is the ability of the ETRS to gain access to information concerning the identities and whereabouts of the various for-profit contractors that are operating in East Timor during this period of rapid re-construction and rehabilitation. These contractors are paid by the United Nations and other multilateral agencies, and donor governments.

In late December 2000, ETRS officers were denied access to records from the United Nations concerning the identities of contractors. The legal advice independently provided to me is that international conventions will prevent the ETRS from enforcing access rights to this information. I am concerned that the contractors may be present in

East Timor for only relatively short periods. Timely follow-up on outstanding income tax obligations is impossible in the absence of reliable data concerning the identity and location of contractors.

### **Taxpayer Enforcement**

A small unit has been established in the ETRS to examine instances of non-compliance with the taxation laws. For the year ended 31 December 2000, this activity was confined to record-keeping reviews and brief audits of taxpayers providing designated services liable to the Services Tax. Cases were selected for examination based upon the level of risk to successful revenue collection.

These actions resulted in additional taxes of \$12755 and penalty taxes of \$456 being imposed for the year ended 31 December 2000. Further details are at Appendix 1.

The enforcement activity brought to light numerous cases where the standard of record keeping maintained by the business was clearly inadequate. Being almost totally a cash-based economy, the risk of significant evasion in respect of income tax obligations is obvious. It is neither feasible nor appropriate for the ETRS to conduct a large number of audits at this time. It is desirable for ETRS to take a firm approach to instances of non-compliance but at the same time ETRS must work to educate the community on the new taxation system and finds ways to encourage taxpayers to voluntarily comply with their new obligations.

### **Information Technology**

In a developing country such as East Timor, the taxation administration requires a set of reliable computer tools to support the staff in the minimum core processes of taxpayer registration, assessment and penalty calculation, accounting and reporting to management. The ETRS commenced to operate with basic manual systems and simple office automation tools. Though these systems were adequate for the small number of taxpayers administered during the year 2000, they will not be adequate for the future income tax and wages tax regime.

In December 2000, ETRS completed an examination of suitable computer software that is commercially available to support a small tax administration. The Canada International Development Agency (CIDA) will finance the acquisition and customisation of the software in 2001.

### **Building Capacity within the ETRS**

Our most significant challenge is to develop a pool of professional and dedicated staff to administer the new taxation system. During the year 2000, the ETRS sought assistance from the Australian Agency for International Development (AusAID), Japan International Cooperation Agency, the United Nations Development Program, the



Government of Germany and the Canadian International Development Agency (CIDA) to commence the long term process of capacity–building.

AusAID provided a team of five personnel to operate the taxation system and begin the training and development of national staff.

Two taxation advisors are to be provided by CIDA from mid 2001.

German Government Financial Cooperation through Kreditanstalt fur Wiederaufbau is to provide computer hardware and systems to the ETRS in 2001.

With the assistance of the Civil Service Academy, introductory training programs in computing, English language, accounting and taxation concepts were conducted for all national staff from September 2000. By December 2000, recruitment actions for staff up to middle manager (Level 5) had been completed and counterparts for a number of international staff were in place.

There is an enormous amount of progress to be made by the ETRS as it attempts to rapidly build capacity in this period of the Transitional Administration. It can only be successful in doing so with the full support of the international donor community.

Dili, June 2001

## APPENDIX 1

TABLE 1: REVENUE COLLECTIONS BY TAX TYPE

Source of Taxation	Amount Received \$US at 31 December 2000
1. Services Tax	658047
2. Timor Sea Value Added Tax	2033286
3. Timor Sea Withholding Taxes	437074
<b>Total</b>	<b>3128407</b>

TABLE 2: ANALYSIS OF TAXATION DEBTS RAISED, TAX COLLECTED AND TAX OUTSTANDING: 1 JULY 2000 TO 31 DECEMBER 2000

Description	Amount \$US	
Services Tax	1. Total Taxation Assessments Raised:	731228
	2. Total Taxation Assessments Collected:	658047
	Tax Outstanding:	73181
Income Tax	1. Total Taxation Assessments Raised:	407275
	2. Total Taxation Assessments Collected:	407275
	Tax Outstanding:	407275
Timor Sea: VAT	1. Total Taxation Assessments Raised:	2033286
	2. Total Taxation Assessments Collected:	2033286
Timor Sea: Withholding Taxes	1. Total Taxation Assessments Raised:	437074
	2. Total Taxation Assessments Collected:	437074
<b>Total</b>	<b>Taxation Assessments Raised:</b>	<b>3608863</b>
	<b>Taxation Assessments Collected:</b>	<b>3128407</b>
	<b>Outstanding Taxation Assessments:</b>	<b>480456</b>

TABLE 3: SUMMARY OF AUDIT CASES (SERVICES TAX)

Description	Amount \$(US)
Total Taxation Assessments Primary Tax	<b>12755</b>
Total Taxation Assessments (Additional Tax: Section 72)	<b>400</b>
Total Taxation Assessments (Additional Tax: Section 73)	<b>56</b>
Total Primary Tax and Additional Tax	<b>13211</b>

## APPENDIX 2

**TABLE 4: ETRS APPROVED STAFFING TABLE  
AND ACTUAL RECRUITMENT TO 31 DECEMBER 2000**

<b>Staffing Level</b>	<b>Approved</b>	<b>Actual</b>
7	1	
6	1	
5	8	6
4	19	16
3	14	8
2	8	2
1	2	
<b>Total</b>	<b>53</b>	<b>32</b>

**TABLE 5: ETRS<sup>2</sup> COSTS OF OPERATIONS**

<b>Description</b>	<b>Amount \$(US)</b>
Goods and Services	94740
Wages and Salaries	12482
Capital	52474
<b>Total</b>	<b>159696</b>

**TABLE 6: ETRS COST OF COLLECTION<sup>3</sup>**

<b>Description</b>	<b>Amount \$(US)</b>	<b>Cost Of Collection (%)</b>
Services Tax	658047	14.7
Timor Sea – VAT	2033286	1.3
Timor Sea- Withholding Taxes	437074	1.3
<b>Total Collections</b>	<b>3128407</b>	<b>5.1</b>

<sup>2</sup> Costs to East Timor Consolidated Budget (ETCB)

<sup>3</sup> ETCB costs as a proportion of total collections

**APPENDIX 3**

