



DEMOCRATIC REPUBLIC OF TIMOR LESTE

MINISTRY OF FINANCE

NATIONAL DIRECTORATE of DOMESTIC REVENUE

## Wage Income Tax

A Guide for Employers and Employees

**Guide**

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(English)  
Wage Income  
Tax

**If you are an employer or an employee, then you may have a tax obligation relating to Wage Income Tax.**

### 1. What is the Wage Income Tax?

It is a tax on the wages of employees from employment in Timor Leste. Public Ruling 2001/3 gives the Commissioner's interpretation of when there is "employment in Timor Leste". The wage income tax is to be deducted by the employer from the wages of the employee and paid to the National Directorate of Domestic Revenue (NDDR). The tax, once deducted, is a final tax on those wages. For a definition of wages and what should be included in wages, please see the Appendix at the end of this Guide and also Public Ruling 2001/5.

### 2. Why does the employer have to deduct tax from the wages of the employee?

The objective of the wage income tax is to simplify the collection of income tax from employees. Under the Taxes and Duties Act 2008 an employer is required by law to deduct this tax from the wages of their employee(s) and to pay the amount deducted to the NDDR. This deduction from the wage of the employee and payment to the NDDR is in effect the payment of income tax by the employee.

### 3. How much is the Wage Income Tax?

For employees who are residents of Timor Leste the wage income tax rate depends on how much wages are paid to the employee for the month.

The Wage Income Tax rates from 1<sup>st</sup> July 2008 are as follows:

Where the employee is a **resident natural person**:

<u>Monthly Wage</u>	<u>Rate</u>
The amount up to \$500	0%
The amount in excess of \$500	10%

Where the employee is a **non-resident**:

Monthly Wage  
Whole of taxable wage

Rate  
10%

A non-resident is a person who is present in Timor Leste for less than 183 days in a tax year or whose permanent place of abode is not in Timor Leste.

**4. How should I calculate the Wage Income Tax where wages are paid weekly?**

Firstly, the weekly wage should be grossed up to determine the monthly wage (i.e. multiply by 52 weeks and divide by 12 months). Wage income tax should then be calculated on the amount so obtained. This amount is then reduced by reversing the ratio (i.e. multiply by 12 and divide by 52). The result of the calculation is rounded down to a whole dollar amount to determine the amount of wage income tax to be deducted.

**5. Are there any employees who are exempt from Wage Income Tax?**

Yes, some employees are exempt from wage income tax. For example:

- wages of an employee who is a citizen of a foreign country received in the employee's capacity as a public servant of the government of a foreign country provided the income is subject to income tax in that country; and
- wages of an employee who is an employee of the United Nations or its specialized agencies.

Please contact the NDDR if you need any further information on employees who are exempt for wage income tax purposes.

**6. How should allowances and benefits be treated for Wage Income Tax purposes?**

All allowances and benefits that are rewards for the services provided by an employee should be included in wages for the purposes of calculating wage income tax. Public Ruling 2001/5 discusses the meaning of "wages" and "reward for services" (refer to the appendix of this tax guide). It outlines how the Commissioner will interpret these terms and is particularly relevant for expatriate employees.

**7. How do I work out the amount of tax which is to be deducted and paid to the NDDR?**

Consider the following examples:

- a) Restaurante Ai-Funan employs Helen as a waitress and pays her wages of \$120 per month. Helen is a resident of Timor Leste.

The amount of Helen's wage income tax is Nil (0% of \$120).

- b) Isabelle is employed by Ai-Kameli Furniture as a manager. Her monthly wage is

\$700 dollars. Isabelle is a resident of Timor Leste.

The monthly amount of wage income tax to be deducted from Isabelle's wage is calculated as follows:

\$0 - \$500	x	0%	Tax
			Nil
Amount greater than \$500 = \$200	x	10%	\$20

Isabelle's employer is required to deduct \$20 from her monthly wage and pay the wage income tax deducted to the NDDR.

- c) Yendi is a non-resident employee and is the staff manager at the Futures Hotel and Restaurant. His monthly wage is \$550.

Whole of monthly wage, i.e. \$550	x	10%	Tax
			\$55

Yendi's employer is required to deduct \$55 from his monthly wage and pay the wage income tax deducted to the NDDR.

## 8. Who pays the Wage Income Tax?

The wage income tax is a tax on the wages of an employee and is deducted and withheld by the employer. The employer is then required to remit the whole of the wage income tax deducted from the wages of all employees to the NDDR.

## 9. When is the tax to be paid?

The tax is to be paid by the 15<sup>th</sup> (or next business day if the 15<sup>th</sup> is not a business day) of the month following the month in which the tax was withheld.

## 10. How is the Wage Income Tax to be paid?

All employers who deduct wage income tax from wages of employees are required to complete three (3) copies of the *Consolidated Monthly Taxes Form* and to deliver these forms and the wage income tax required to be paid (plus any other tax obligation they have to pay) to a branch of the Banco Nacional Ultramarino (BNU).

The BNU will stamp the forms and return one (1) copy to you for your records.

Payments may be made electronically. An employer may obtain advice on this method through the contact details below.

## 11. How do I get monthly taxes forms?

Consolidated Monthly Taxes Forms may be obtained from any of the NDDR District

Offices. The forms are also available at Banco Nacional Ultramarino.

The NDDR Dili District Office is located in Av. Pres. Nicolao Lobato - Receitas e Alfândegas Edeficio, (em frente ao edifício Ensul) - Dili. Enquiries can also be made by telephoning + (670) 331 0059.

If you are outside Dili you can obtain monthly taxes forms from:

- NDDR Baucau District Office located in Vilanova Street, Kota Baru, Baucau.
- NDDR Maliana District Office located in Holsa Street, Maliana.

## **12. What happens if the employer does not deduct Wage Income Tax from the wage of the employee and pay this tax?**

If an employer does not deduct wage income tax from the wage of an employee when required to do so, the employer may be prosecuted in court. The employer will still have an obligation to pay the wage income tax not deducted to the NDDR.

If an employer deducts wage income tax from the wage of an employee but does not pay it to the NDDR, then the employer will be charged additional tax and penalties. The additional tax and penalties can be high depending on the reason for not paying the tax.

In addition, for business employers where a person is required to withhold tax from a payment that is a deductible expense (including a payment of wages), the deduction is not allowed until the person pays the tax withheld to the Commissioner.

## **13. What record should the employer keep?**

The tax laws require that the employer must create and keep adequate records to prove that he/she has deducted and paid the correct amount of wage income tax. These records need to be kept for 5 years after the end of the tax year in which the wage income tax was required to be deducted and paid to the NDDR.

## **14. Where can I get more information?**

More information may be obtained from the NDDR Dili District Office that is located in Av. Pres. Nicolao Lobato - Receitas e Alfândegas Edeficio, (em frente ao edifício Ensul) - Dili. Enquiries can also be made by telephoning + (670) 331 0059.

If you are outside Dili you can also obtain more information from the:

- NDDR Baucau District Office located in Vilanova Street, Kota Baru, Baucau.
- NDDR Maliana District Office located in Holsa Street, Maliana.

In addition, full copies of rulings, guides and other information may be down loaded from the Ministry of Finance website at: [www.mof.gov.tl/taxation](http://www.mof.gov.tl/taxation)

## APPENDIX

### Definition of wages and non-wage benefits (refer to the Taxes and Duties Act 2008)

#### Section 20.3:

“**wages**” means any reward for services provided by an employee to an employer, including:

- (a) any salary provided to the employee, including leave pay, overtime payments, commissions, or bonuses;
- (b) director’s fees and other remuneration arising from the holding of an office;
- (c) the value of gifts provided by an employer to an employee;
- (d) any allowance provided by the employer for the benefit of an employee;
- (e) any payment provided by the employer in respect of loss or termination of employment;
- (f) any payments however described made on termination of employment in respect of entitlements outstanding at the time of termination;
- (g) the reimbursement or discharge by an employer of any expense of the employee, including utilities or medical expenses;
- (h) the amount of any waiver where any employer waives an obligation of the employee to pay an amount owing to the employer; and
- (i) non-wage benefits greater than \$20 provided in a calendar month to an employee.

#### Section 2:

“**non-wage benefit**” means any in-kind reward for services provided by an employer to an employee, including:

- (a) the value determined by the National Tax Director of the provision by the employer to an employee of the use of a motor vehicle wholly or partly for private purposes of the employee;
- (b) the value determined by the National Tax Director of the provision by the employer to an employee of accommodation or housing;
- (c) the value determined by the National Tax Director of the provision by an employer to an employee of a housekeeper, driver, guard, gardener, or other domestic assistant;
- (d) the cost to the employer of providing an employee with any meal, refreshment, or entertainment except in the course of providing a good or service for the employer where the National Tax Director considers that the cost of provision for the employer is reasonable; or
- (e) the market value of any other non-cash benefit provided by an employer to an employee;