

2004 INCOME TAX FORM INSTRUCTIONS

GENERAL INFORMATION

These Instructions are designed to help you complete your 2004 income tax form. It is **NOT** a guide to the income tax law. More detailed information about income tax is available in other publications listed at the end of these instructions. If you need more information you can contact the Timor Leste Revenue Service (TLRS) for assistance. Contact details for the TLRS are provided at the end of these instructions. If you are operating as a Timor Sea Business, please consult the 2004 Income Tax Return Form instructions for Timor Sea (ZOCA).

Who is required to lodge a return?

The following taxpayers are required to submit 2004 income tax returns:

- All taxpayers conducting business activities are required to lodge a 2004 Annual Income Tax Form.

Do not send schedules, calculations or other documents with your income tax return. You may be required to produce these records at a later date so that information reported in your return can be verified.

When is my return due and when do I have to pay my tax?

The annual return form is due for lodgement on or before **15th March 2005**. Any income tax payable is also due for payment by **15th March 2005**. You must complete two copies of the income tax form and present these forms together with any payment to the Banco Nacional Ultramarino (BNU) or if you live outside Dili:

- Baucau - present the forms and the payment to the ETPA District Finance Officer.
- Maliana – present the forms and the payment to the ETPA District Finance Officer.

The BNU or District Finance Officer will stamp the forms and retain one copy for the Timor Leste Revenue Service (TLRS). **The second copy will be returned to you for your records.**

COMPLETING YOUR RETURN

Please complete your return in **BLOCK LETTERS** using black or blue pen **only**.

Change of Taxpayer Details

If any of your taxpayer details (i.e. address) have changed since you lodged your 2003 income tax form please **print** your new details in the *Change of Taxpayer Details* section, located on Page 1 of the 2004 Annual Income Tax Form.

Taxpayer Declaration and Remittance Form

The taxpayer declaration and remittance form are on page 6 of your Income Tax Form. Ensure that you correctly complete all the required details carefully. This form MUST BE RETURNED with your 2004 Annual Income Tax Form.

If you do not have a tax identification number (TIN), you will need to complete a General Registration Form. This form is available from the TLRS or from ETPA district finance officers. You should lodge your completed General Registration Form with your income tax form. When your General Registration Form has been processed the TLRS will forward a letter to you advising you of your TIN. Income tax returns that are lodged without a TIN may experience delays in processing.

Q.1 Are you an Individually-owned enterprise? Answer YES to this question if your business has only one legal owner (i.e. – sole-proprietor.) If your business has multiple owners, shareholders, is a corporation, partnership, a trust, a non-government organization or an unincorporated association you must answer NO to this question.

Q.2 Are you an Individually Owned Enterprise and a Resident of Timor Leste for Tax Purposes?

Answer YES to this question if you are an Individually Owned Enterprise and have a permanent establishment located in Timor Leste, or if you are a permanent resident of Timor Leste. If you do not have a business establishment physically located in Timor Leste or if you are not a permanent resident of Timor Leste, answer NO. If you responded ‘NO’ to Question #1, you must answer ‘NO’ to question #2.

Will you be completing an income tax return for the year beginning Jan 2005?: Select YES if you continue to conduct business activities at any time during the 2005 income tax year. If you answer NO, provide relevant details in the field provided.

Description of main business activity: Please describe as accurately as possible the business activity from which you derived the **MOST** gross income. Please do not use general descriptions such as farmer, manufacturer or wholesaler – use specific descriptions such as ‘wholesaler of automotive parts’ or ‘cattle farming’.

Line 5 INCOME:

A) IF YOU ANSWERED ‘YES’ TO Q.1 (i.e. You ARE an individually-owned enterprise) THEN FOLLOW THESE INSTRUCTIONS (If you are a Non-Individual Enterprise go to the instructions at B) below):

Indicate your gross income (i.e. before deduction of any expenses) at Line 5. **DO NOT INCLUDE INCOME THAT HAS BEEN SUBJECT TO WAGES INCOME TAX OR FINAL WITHHOLDING TAX. Note:** Income that is subject to Final Withholding Tax but the Final Withholding Tax has not been deducted and remitted to the TLRS must be included in you Gross Income at Line 5 of your Income Tax Form.

For individually owned enterprises (sole-traders) income categories that are subject to final withholding tax are as follows:

- **dividends, interest, prizes and lotteries**
- **royalties**
- **rent – land and buildings**
- **construction and building activities**
- **construction consulting activities**
- **petroleum, geothermal drilling and drilling support services**
- **mining and mining support services**
- **transportation – sea and air**
- **non residents without a permanent establishment (all payment types)**

Continue completing the Annual Income tax form starting with Line 10.

B) IF YOU ANSWERED ‘NO’ To Q.1 (ie. You are NOT an individually-owned enterprise) THEN FOLLOW THESE INSTRUCTIONS:

Indicate your gross income (i.e. before deduction of any expenses) at Line 5. DO NOT INCLUDE INCOME THAT WAS SUBJECT TO WAGE INCOME TAX OR FINAL WITHHOLDING TAX. Note: Income that is subject to Final Withholding Tax but the Final Withholding Tax has not been deducted and remitted to the TLRS must be included in you Gross Income at Line 5 of your Income Tax Form.

Income categories that are subject to Final Withholding Tax are as follows:

- prizes and lotteries
- construction and building activities
- construction consulting activities
- petroleum, geothermal drilling and drilling support services
- mining and mining support services
- transportation – sea and air
- non residents without a permanent establishment (all payment types)

You MUST include income at Line 5 of your Income Tax Form that was subject to withholding tax from the following income categories. The Withholding Tax that these categories are subject to is NOT a “Final” Withholding Tax for Non-Individual Enterprises:

- Dividends
- Interest
- Royalties
- Rent on Land and/or Buildings

Continue completing the Annual Income Tax Form at Line 10.

Expenses:

Note: If you derive income that is subject to final withholding and income that is subject to ordinary assessment, you may only claim those expenses that relate to the income that is subject to ordinary assessment in this return. **TLRS Public Ruling 2001/9 *Apportioning expenses when some income is not subject to withholding tax* provides guidance on how to apportion your expenses. For information on how to obtain this ruling see the ‘Further Information’ section at the end of these instructions.**

Lines 10 to 25 – Stock:

Stock is the value of goods, including livestock, on hand at the beginning and end of your accounting period. For tax purposes, stock is valued at cost, determined according to the absorption-cost method. If you wish to change your inventory valuation method, you must obtain the written permission of the Commissioner.

Line 30– Cost of Sales:

This is calculated by adding opening stock (Line 10) plus purchases (Line 15), and deducting closing stock (Line 25)

Line 35- Depreciation:

Depreciation is allowable in respect of depreciable assets and business buildings. A ‘business building’ is a building used wholly or partly in the conduct of taxable business activities. A ‘depreciable asset’ is any tangible movable property of a taxpayer that has a useful life exceeding one year, is likely to lose value as a result of wear and tear or obsolescence and is used wholly or partly in the conduct of taxable business activities.

Depreciable assets may be depreciated:

- individually on a straight line basis
- under a pooling system on a declining balance basis.

The same method of depreciation shall apply to all depreciable assets of a taxpayer.

Refer to the *Income Tax Guide* for further information and rates of depreciation.

Line 40- Amortisation of Intangibles:

A deduction is allowable for the amortisation of intangible assets and expenditure. An 'intangible asset' is any property (other than tangible movable property or immovable property) that:

- has a useful life exceeding one year, and
- is used wholly or partly in the conduct of taxable business activities.

Intangible assets are amortised on a straight-line basis.

Refer to the *Income Tax Guide* for further information and amortisation rates.

Line 45- Bad Debts:

A bad debts expense is allowable if:

- the debt was previously included in taxable income
- the debt is written off in the accounts during the year, and
- there are reasonable grounds for believing that the debt will not be recovered

With the exception of banks, **accounting provisions for bad debts should not be included.**

Line 50- Interest:

This is interest that is borrowed to produce taxable income. The total amount of interest expense allowed as a deduction for a tax year is not to exceed the sum of the taxpayer's interest income for the year plus fifty percent (50%) of the taxpayer's net non-interest income for the year. A taxpayer's net non-interest income is the taxpayer's gross income for the year (other than interest income) less the total amount of deductions allowed to the taxpayer for the year, other than for interest expense. This does not apply to financial institutions.

Line 55- Foreign Currency Exchange Losses:

Foreign currency transactions must be accounted for in accordance with International Accounting Standard IAS 21. Foreign exchange losses are not recognized to the extent that exposure to such loss is hedged.

Line 60 - Salary and wages:

Salary and wages include amounts paid or payable to persons employed in your business. If you replied YES to Q.1 (i.e. You ARE an individually-owned enterprise), you can not be an employee of your business. Payments to yourself cannot be claimed as a deduction in calculating your taxable income or loss.

Lines 65 & 70- Contractor, sub-contractor and commission expenses:

These are expenses for labour and services provided under contract other than those in the nature of salaries and wages.

Line 75- Rent and Lease Expenses:

Rent is expenditure as a tenant on rental of land and buildings used in the production of income. Lease expenses are expenses incurred through both finance and operating leases on leasing plant and equipment, including motor vehicles. Note – if you wish to claim Rental or Lease expenses, it is mandatory to provide full and complete information to the TLRS in the 'Landlord Contact Details' section of the Annual Income Tax Form. Failure to provide complete and accurate Landlord Contact Details information will result in the automatic denial of any rental or lease expense claimed.

Line 80- Motor Vehicle Expenses:

These are motor vehicle running expenses only such as fuel, oil, repairs, and insurance premiums.

Line 85- Repairs and Maintenance:

This is expenditure (other than capital expenditure) on repairs and maintenance of plant, machinery, equipment and property used for producing assessable income or in carrying on a business for that purpose. Expenditure on repairs to property used partially for business or income producing purposes must be apportioned. Where items are newly acquired, the costs of repairs to remedy defects in existence at the time of acquisition are generally of a capital nature. Expenditure incurred in making alterations, additions or improvements is of a capital nature and is not deductible as repairs and maintenance but depreciation can be claimed.

Line 90- Research and Development Expenses:

This is expenditure incurred in Timor Leste on research and development. Expenditure incurred outside Timor Leste on research and development is not deductible.

Line 95- Scholarship, apprenticeship and training costs:

This is expenditure that has been incurred in providing scholarships, apprenticeships and training to employees.

Line 100 – Royalties expenses:

This is the expenditure that has been incurred in paying royalties

Line 105 Losses from Sale/Transfer of Property:

These are losses due to the sales or transfer of property owned and used in business or owned for the purposes of earning, recovering or securing income. Gains from the sale or transfer of property are to be included in Gross Income at Line 05. A gain or loss on disposal of an asset that has been depreciated under the 'pooling system' is brought to account in the calculation of depreciation and not at lines 5 and 105.

Line 110 –Other tax-deductible expenses:

Include all other tax-deductible expenses that have not been included at Lines 10 to 105. All claims for other tax-deductible expenses exceeding \$1000 must be described in full and detailed on lines 115 – 130. Attach an additional page if required.

Line 135- Total Expenses:

Total all expense items shown at lines 30 to 110.

Line 140– Taxable Income or Loss before deducting/adding carry forward losses:

Subtract *Total Expenses* Line 135 from *Total Income* Line 5. If this figure is negative (a tax loss), clearly indicate this by using a negative sign (-) in the appropriate field.

Line 145: Loss carried forward from 2003:

If you had a carried forward loss from the 2003 tax year, write the amount of the loss at this label. If you did not have a carried forward loss from the 2003 tax year leave this Line blank. Note that any carried-forward loss claim is subject to verification by the TLRs Assessment unit.

Line 150: 2004 Taxable Income/Loss:

This figure is calculated as follows:

1. If the figure at Line 140 is positive then:

- If you **did not** have a carry forward loss for the 2003 year, that is you **do not** have an amount written at Line 145, transfer the same amount written at Line 140 to Line 150. Income tax will be calculated on this amount.

- If you **did** have a carry forward loss for the 2003 year, that is you **do** have an amount written at Line 145, you may claim the loss, up to the same amount as the income shown at Line 140, as an expense in calculating your taxable income. For example, if your taxable income before deducting losses (Line 140) was \$600 and the carry forward loss from the 2003 tax year (Line 145) is \$1000, you may claim \$600 of this loss as an expense. The amount at Line 150 will then be zero (\$600 - \$600). The balance of the loss (\$400) may be carried forward for a maximum of five (5) years from the year in which it was incurred.

2. If the amount at Line 140 is negative then:

- Transfer the same amount written at Line 140 to Line 150. Make sure you indicate your loss by using a negative sign (-) in the field at Line 150. This tax loss may be carried forward (unless expired) for a maximum of five (5) years.

Line 155: Total Losses to Carry Forward to 2005

This figure will be the sum of any unexpired loss from the 2003 tax year, plus any tax loss in the 2004 tax year.

For example:

- If you have an unexpired loss in the 2003 tax year of \$400 and you made a loss in the 2004 tax year of \$1000 (Line 150), the amount to carry forward to 2005 is \$1400
- If you do not have a loss to carry forward from 2003 and you have made a tax loss in the 2004 tax year of \$1000 (Line 150), the amount to carry forward to 2005 is \$1000.

Line 165 - Individual deductions

If you are a **resident individual** (You answered ‘Yes’ to both questions 1 & 2 – i.e. you ARE an individually-owned enterprise and you are considered to be a resident of Timor Leste for taxation purposes) you are entitled to the following deductions from the taxable income you have shown at Line 150 on your 2004 income tax return. If the amount at shown at Line 150 is zero or negative (i.e. a loss) you cannot claim an Individual Resident Deduction. If you are not a resident individual, you are not entitled to further deductions from the taxable income you have shown at Line 150.

- \$388 for an individual
- An **additional** \$194 for a married individual
- An **additional** \$194 for each wholly dependent family member (up to a maximum of three additional).

Example – an individual who is a resident of Timor Leste for tax purposes and is residing in Timor Leste with a spouse and two fully-dependent children. Their claim would be \$388 for the first individual, + \$194 for their spouse, + 2 X (\$194) for each of their two children for a total of \$970.

Calculate the amount of individual resident deduction you are entitled to, and transfer this amount into line 165 of the 2004 Annual Income Tax Return. You will also require this figure to complete your calculation of tax owing in the schedule below.

Calculation of Tax Owing:

(Use this schedule to calculate your tax owing)

Copy your taxable income from Line 150 on your tax return

Less:

Individual resident deduction

EQUALS:

INCOME SUBJECT TO TAX

Use the 2004 tax rates provided below to calculate the tax payable on your income that is subject to tax.

If you answered ‘Yes’ to Question 1 (i.e. you ARE an individually-owned enterprise) then use Table A below to calculate your tax owing. If you answered ‘No’ to Question 1 (i.e. you are NOT an individually-owned enterprise), then use Table B Below to calculate your tax owing.

2004 TAX RATES: TABLE A - INDIVIDUAL ENTERPRISES	
Taxable Income	Tax on this Income
0 - \$3368	10% for each dollar
\$3369 - \$6737	\$336.80 plus 15% for each \$1.00 exceeding \$3368
\$6738 and over	\$842.15 plus 30% for each dollar exceeding \$6737

2004 TAX RATES: TABLE B – NON-INDIVIDUAL ENTERPRISES	
Taxable Income	Tax on this Income
All Taxable Income	30% for each dollar

Tax on income subject to tax

(Apply the above rates to your 'Income Subject to tax' reported above).

Copy the above total into line 175 on the 2004 Income Tax return.

*Note: Round any tax owing **down** to the nearest dollar.*

Lines 180 & 185 – 1% Minimum Income Tax Calculation

The Laws governing Income Tax in Timor Leste include a Minimum Income Tax. The Minimum Income Tax is calculated as 1% of your Total Turnover (Gross Income) for the year. Where the Minimum Income Tax amount is greater than the Income Tax liability you have calculated at Line 175 you are required to pay the Minimum Income Tax amount. At line 180, copy the amount of Gross Income you reported at Line 5 of your 2004 Annual Income Tax Form. Multiply this amount by 1% and insert the amount obtained at Line 185. This figure represents your Minimum Income Tax liability for 2004.

Line 190 - Tax Payable:

Compare the 2 amounts at Line 175 and at Line 185. Insert the **LARGER** of these two amounts at Line 190. This amount represents your actual income tax payable and is your 2004 Income Tax liability.

Allowable Income Tax Credits

Line 195 – Foreign Tax Credits:

A resident taxpayer is entitled to a credit for any foreign tax paid by the taxpayer in respect of foreign-source income included in taxable income for a tax year. This is known as a foreign tax credit. Limitations may apply to the claiming of foreign tax credits. You can obtain more information on foreign tax credits in UNTAET Directive 2001/2. If you have qualifying Foreign Tax Credits for the 2004 Tax Year, insert this figure at line 195. You can only claim an amount up to the value of the amount of Timor Leste tax calculated on that category of income. All amounts claimed at line 195 are subject to verification by the TLRS.

Line 200 – Instalments Paid:

Add the total of all instalments you have already paid towards your 2004 Annual Income Tax liability. This total is subject to verification by the TLRS.

Lines 205 – 220 Withholding Tax paid on Dividends, Interest, Royalties, and the Rental of Land and/or Buildings:

As of 1 July 2002, Non-Individually-owned enterprises are entitled to claim any withholding tax pre-paid to the TLRS on the four above-mentioned income categories as a credit against their Annual Income Tax liability. On the appropriate line, claim any amounts of withholding taxes that have been deducted from these income categories and remitted to the TLRS during 2004 year (i.e. 1 January 2004 to 31 December 2004). **NOTE:** You must include the gross amount of income received in Gross Income at Line 05 of your Income Tax Form.

Income Tax Instalments for the 2005:

Taxpayers have a liability to 'pre-pay' tax on income that is not subject to final withholding or foreign taxes. The 'prepayment' is made by way of income tax instalments. The income tax instalment amounts for 2005 are calculated as 1% of your monthly or quarterly Total Turnover. The frequency of the income tax instalment, monthly or quarterly, is based on the amount of Total Turnover (Gross Income) in the previous tax year. All instalment payments are made on the monthly consolidated tax form.

Monthly Instalments:

Taxpayers with a turnover of more than \$1 million in the previous tax year have a liability to pay monthly income tax instalments. For the 2005 year the first monthly instalment is due on 15 February 2005. Each subsequent instalment is due on the 15th of the month thereafter (i.e. 15 March 2005 to 15 January 2006).

Quarterly Instalments:

Taxpayers with a total turnover of \$1 million dollars or less in the previous tax year have a liability to pay quarterly income tax instalments. For the 2005-year quarterly instalments are paid on: the March Monthly Tax Form due on 15 April 2005, the June Monthly Tax Form due on 15 July 2005, the September Monthly Tax Form due on 15 October 2005 and the December Monthly Tax Form due on 15 January 2006.

MESSAGES

Self assessment and what it means to you

The Timor Leste Revenue Service (TLRS) has prepared publications that will provide you with the information and guidance you need to complete your income tax form. It is your responsibility to lodge a tax return that is complete and correct. The TLRS does not check everything in the return and will accept the information in the return as lodged. At a later date we may check some of the details more thoroughly.

Please remember, even if someone else helps you to complete your income tax form, you have to sign the *Taxpayer's Declaration* and you are responsible for the information you provide on your tax return.

What if there is a mistake on my return

Mistakes may be made either by the taxpayer or by the TLRS.

If the TLRS makes a mistake that affects the amount of tax payable by you, or the amount of tax refundable to you, you will receive an amended assessment notice and an explanation about the mistake.

If you realise that there is an error in your return, you should correct it as soon as possible by requesting an amendment. You can request an amendment by writing a letter to the Commissioner of the TLRS or submitting an amended tax form.

If you submit an amended tax form, please remember to write 'AMENDED' on the top of the first page. You should also include a covering letter containing an explanation of why the amendment is necessary. It is important that you provide an explanation of why you made the mistake so that we can assess any additional tax correctly.

If you write to the Commissioner requesting an amendment your letter should include the following details:

- TIN

- Your full name and address
- Information about what you want to amend
- An explanation of why an amendment is necessary

How to I make a payment using Electronic Funds Transfer (EFT)

If you wish to pay your tax debt electronically, you may transfer USD funds to the Reserve Bank of Australia. Each payment instruction must clearly show:

- Bank: The Federal Reserve Bank on New York
33 Liberty Street
New York,
New York 10045
- Swift Code: FRNYUS33
- Account Name: Reserve Bank of Australia, Sydney
- Swift Code: RSBKAU2S
- Account Number/ABA: 021083116

Note that your completed income tax return will still need to be sent to the TLRS with “electronic payment” marked on the payment advice on the last page of the return.

Exchange rates-What rates do I use for calculating my income tax?

For Timor Leste tax purposes all amounts must be expressed in US dollars. For the purposes of calculating your income tax, all non-\$US amounts should be converted to \$US using the average monthly exchange rates provided to TLRS by Banking and Payments Authority.

Non-\$US amounts in each month should be converted to \$US by dividing the non-\$US income by the exchange rate applicable for that month. Where income cannot be identified as having been earned in a particular month, the average annual exchange rate for 2004 can be used.

The monthly average exchange rates for the 2004 tax year are (\$US 1 =)

	<u>Australia \$</u>	<u>Indonesian Rupiah</u>
January 2004	1.30	8,403
February 2004	1.29	8,448
March 2004	1.33	8,584
April 2004	1.33	8,584
May 2004	1.42	9,002
June 2004	1.44	9,397
July 2004	1.40	9,060
August 2004	1.41	9,240
September 2004	1.43	9,217
October 2004	1.36	9,175
November 2004	1.31	8,930
December 2004	1.32	8,935
The average annual exchange rate is:	1.36	8,915

Retention of records

All records should be kept and be readily accessible by, or be produced to, the Timor Leste Revenue Service (TLRS) if required. Records must be maintained for five years in one of the following languages:

- English
- Portuguese

- Indonesian
- Tetum

Penalties

Penalties may apply if you:

- Lodge a return after the due date.
- Fail to deliver a tax payment by the due date.
- Understate the amount of tax owing on your tax form.
- Fail to create and retain records.

FURTHER INFORMATION

You can find out more about income tax by obtaining copies of the following publications from the TLRS:

- *Income Tax Instructions*
- *UNTAET Directive No 2001/2 – Calculation of Taxable Income and Administrative Matters Relating to the Income Tax*
- *TLRS/SRTL Designation Notice 2004/1- Persons required to complete 2004 income tax returns*
- *TLRS/SRTL Public Rulings including 2001/9 Apportioning expenses when some income is not subject to withholding tax*
- *Guide for the withholding tax on rent from land and buildings*
- *Guide for the final withholding tax on construction activities and services*
- *Guide for Income Tax Instalments.*

If you require further assistance with completing this form, or about income tax, please telephone the TLRS (Dili) on 3310059. Alternatively you may wish to visit the TLRS between the hours of 9am and 5pm, Monday to Friday, public holidays excepted. In Dili the TLRS is located in the Justice Building on the corner of Don Fernando & Jacinto de Candido streets (west of the Lyceum). The TLRS is in the west half of the building. In Baucau the TLRS office is located in Vilanova Street, & in Maliana the TLRS Office is located in Holsa Street.