DEMOCRATIC REPUBLIC OF EAST TIMOR

MINISTRY OF PLANNING AND FINANCE

Guide

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(English)
Wage Income Tax

EAST TIMOR REVENUE SERVICE

WAGE INCOME TAX

A guide for Employers and Employees

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 East Timor. Public Ruling 2001/3 gives the Commissioner's interpretation of when there is "employment in East Timor". The Wage Income Tax is to be deducted by the employer from the wages of the employee and paid to the East Timor Public Administration (ETPA). 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 Regulations passed by the former National Council, an employer is required by law to deduct this tax from the wage of their employee and to pay the amount deducted to ETPA. This deduction from the wage of the employee and payment to ETPA is in effect the payment of income tax by the employee.

3. What is the Wage Income Tax deducted from the wages of employees and paid to ETPA be used for?

Taxes paid to ETPA are used for services for East Timorese like hospitals, schools, university, electricity, water supply, roads, police, etc. They help East Timor achieve a degree of financial independence and this is necessary because funds from donors will inevitably decrease. Taxes paid to ETPA are **not** used for UN expenses like UN vehicles and the salary of UN staff because ETPA budget is independent of UN budget.

4. When did this tax start?

The Wage Income Tax commenced on 1 January 2001 and there have been changes to the law which came into effect on 1 July 2002.

5. How much is the Wage Income Tax?

For employees who are residents of East Timor the Wage Income Tax rate depends on how much wages are paid to the employee for the month. If the employee has provided the employer with the employee's Tax Identification Number (TIN), the Wage Income Tax rate from 1 July 2002 is as follows:

Monthly Wage	Rate
The amounts up to US$550*	10%
The amount in excess of US$550*	30%

*** If the employee was paid in a currency other than US dollars, the monthly wage will have to be converted to US dollars using the exchange rate that applied during the month that the wage was paid.**

If the employee has not provided the employer with the employee's TIN, the Wage Income Tax rate is 30% of the whole amount of the monthly wage.

If the employee is a non-resident, the Wage Income Tax rate is 20% of the whole amount of the monthly wage. There is no tax-free amount and tax is calculated from the first dollar. A non-resident is a person who is present in East Timor for less than 183 days in a tax year or whose permanent place of abode is not in East Timor.

From 1 July 2002, each employee is allowed a personal tax credit of $10 per month against the wages income tax payable for the month. Any excess credit is neither refunded or carried forward.

6. 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 (multiply by 52 weeks and divide by 12 months). Tax should be then calculated on the amount so obtained. This amount is reduced by reversing the ratio (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 tax to be deducted.

The East Timor Revenue Service (ETRS) has developed a spreadsheet calculator for you to use for monthly, 4-weekly, fortnightly, weekly and daily pay periods. It can be used where the wage rate is up to the equivalent of US$2,000 per month. A copy of the program may be obtained by attending at the ETRS office with a computer disk to load the spreadsheet. Alternatively it can be E-mailed to you on request. Please send E-mail requests to etrs-dili@un.org.

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

Yes, some employees are exempt from Wage Income Tax. For example, representative staff employed by a foreign government to serve with its representative office in East Timor and employees who work in the geographical area recognized as the Timor Gap. (The latter are likely to be subject to other taxes). Please contact the ETRS if you need any further information on employees who are exempt for Wage Income Tax purposes.

8. Is there a minimum amount of wages earned by a resident employee before Wage Income Tax is deducted from the wage of the employee?

No. For wages paid from 1 July 2002, the amount of Wage Income Tax to be deducted is calculated using the rates listed in the answer to Question 5.

For wages paid prior to 1 July 2002, the monthly wage of a resident employee had to be over US$100 or its equivalent before the employer had to deduct Wage Income Tax. For further details, please contact the ETRS.

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

All allowances and benefits that are rewards for services 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”. It outlines how the Commissioner will interpret these terms and is particularly relevant for expatriate employees.

10. How do I work out the amount of tax which is to be deducted and paid to ETPA?

Consider the following examples:

a) Restaurante Ai-Funan employs Helen as a waitress and pays her wages of $85 per month. Helen is a resident of East Timor and has supplied a TIN to her employer.

The amount of Helen’s Wage Income Tax is $8.50 (10% of $85) However, as Helen is entitled to a personal tax credit of $10 per month, the amount of wage income tax is reduced to nil. No amount needs to be deducted by her employer from her wage for the month. The excess credit of $1.50 is not refunded or carried forward to next month.

b) Isabelle is employed by Ai-Kameli Furnitures as a manager. Her monthly wage is US$700 dollars. Isabelle is a resident of East Timor and has supplied a TIN to her employer.

The monthly amount of Wage Income Tax to be deducted from Isabelle’s wage is calculated as follows:

Amount from US$0 to US$550 x 10% (US$550 x 10%)		US$ 55.00
Amount from US$550 to US$700 x 30% (US$150 x 30%)		US$ 45.00
	Gross Wage Income Tax	US$100.00
Less:	Personal Tax Credit	US $ 10.00
	Wage Income Tax payable	US $ 90.00

Isabelle is entitled to a personal tax credit of $10 per month against her wages income tax payable for the month.

Therefore Isabelle's employer will have to deduct US$90 from her monthly wage and pay the Wage Income Tax deducted to ETPA.

11. Who pays the Wage Income Tax?

The Wage Income Tax is a tax on the wage income of employees that is deducted by the employer from the wage of the employee and paid to ETPA.

12. When is the tax to be paid?

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

13. How is the Wage Income Tax to be paid?

Employers who deduct Wage Income Tax from wages of employees are required to complete two copies of the *Monthly Taxes Form* and to deliver these forms and the Wage Income Tax deducted to Banco Nacional Ultramarino (BNU) in Dili. If the employer operates outside of Dili, then the local District Finance Officer can accept the tax form and payment.

The tax must be paid in the official currency of East Timor, which is the US dollar.

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

14. How do I get monthly taxes forms?

The ETRS, which is the tax administration agency of ETPA, provides pre-printed monthly taxes forms to registered employers. The forms are also available at Banco Nacional Ultramarino or the ETRS Office.

The ETRS Dili District office is located in the Justice Building on the corner of Don Fernando and Jacinto de Candido Streets, immediately south of the former LGR building and west of the Lyceum.

You can also obtain monthly taxes forms from the local District Finance Officers outside of Dili.

15. 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, the employer can be prosecuted in court.

If an employer deducts Wage Income Tax from the wage of an employee but does not pay it to ETPA, 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, 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.

16. What record should the employer keep?

The tax law says that the employer must keep adequate records to prove that he/she has deducted and paid the correct amount of tax. These records need to be kept for 5 years after the calendar year in which the Wage Income Tax needs to be deducted and paid to ETPA.

17. Where can I get more information?

The ETRS Dili District office is located in the Justice Building on the corner of Don Fernando and Jacinto de Candido Streets, immediately south of the former LGR building and west of the Lyceum. Enquiries can also be made by telephoning +(670)(390) 32 22 91, by facsimile on +(670)(390) 32 22 96 or by e-mail to etrs-dili@un.org.

In addition, full copies of rulings, guides and other information may be down loaded from the ETRS Website at http://www.gov.east-timor.org/fbea/

APPENDIX

Definition of wages and non-wage benefits (section 3 of Regulation 2000/18)

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

(a) any salary provided to the *employee* , including leave pay, overtime payments, commissions, and bonuses;
(b) director’s fees;
(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 expenses;
(h) the amount of any reimbursement or discharge by an *employer* of an *employee*’s medical expenses;
(i) the amount of any waiver where any *employer* waives an obligation of the *employee* to pay an amount owing to the *employer*; and
(j) *non-wage benefits* greater than $20 provided in a calendar month to *employees* of an *employer* that is exempt from income tax.

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

(a) the market value of any non-cash benefit provided by an *employer* to an *employee*;
(b) the value determined by the *Commissioner* 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*;
(c) the value determined by the *Commissioner* of the provision by the *employer* of accommodation or housing;
(d) the value determined by the *Commissioner* of the provision by an *employer* to an *employee* of a housekeeper, driver, guard, gardener, or other domestic assistant; and
(e) 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 *Commissioner* considers that the cost of provision for the *employer* is reasonable.