Timor-Leste

Tax and Investment Guide

2014 - 3rd edition
Including an update on the latest Investment Rules

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Cartographic Section

A Summary of Timor-Leste Taxation and Investment Rules
The information continued in this booklet is based on taxation and investment rules and practices, including legislative proposals, as at 1 January 2014. The focus of this booklet is primarily on Timor-Leste's taxation arrangements with only high level comments provided on the associated investment and legal issues.

This booklet is intended as a general guide only. Where specific transactions are being contemplated definitive advice should be sought.

Map source: The United Nations

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Snapshot

Population[1]	1.210m (2012)
Capital	Dili
Geography – size	14,874 km2 (approx), located in the Eastern portion of the Indonesian archipelago.
Official currency	The US Dollar
GDP per capita (non-oil)[2]	US$1,175 (2012)
GDP per capita (including oil)[2]	US$5,643 (2012)
GDP at current prices (non-oil)[2]	US$1,355m (2012)
GDP at current prices (including oil)[2]	US$6,300m (2012)
Real non-oil GDP growth (annual)[2]	8.3% (2012 estimate) 8.1% (2013 forecast)
Consumer Price Index (average annual)[2]	13.1% (2012 estimate) 10.6% (2013 forecast)
Total government non-oil revenues[2]	US$137m (2012) US$148m (2013 budget)
Total government oil revenues[2]	US$3,559m (2012) US$2,726m (2013 budget)
Total government expenditure[2]	US$1,390m (2012) US$1,439m (2013 budget)
Non-oil fiscal deficit[2]	US$999m (2012) US$1052m (2013 budget)
Withdrawals from the Petroleum Fund[2]	US$1,055m (2012) US$843m (2013 budget)
Imports[2]	US$672m (2012) US$769 (2013 forecast)
Exports[2]	US$33m (2012) US$37m (2013 forecast)
Petroleum Fund balance[3]	US$14.9 billion (December 2013)
Non-oil industries % of (non-oil) GDP[4]	Construction (20.8%); Public sector (20.2%); Agriculture, forestry, and fishing (14.6%); Retail & wholesale (13.3%); Real estate (8.6%); Information & Communication (5.7%); Transport, Accommodation & Restaurants, Manufacturing (each less than 5.0%) (2011 actual)
Official languages	Portuguese and Tetum (national languages). 15 local dialects. English and Indonesian are used in government and business.
Mother tongues	Tetum Prasa (37%), Mambai (12%), Makasai (10%), Tetum Terik (6%), Baikenu (6%), Kemak (6%), Bunak (5%), other (18%) (2010 census)
Religions	Catholic (97%), Protestant (2%) and Muslim (<1%) (2010 census)

Sources: 1. World Development Indicators database, The World Bank; 2. International Monetary Fund Country Report No.13/338, December 2013; 3. Banco Central De Timor-Leste press release; 4. Timor-Leste 2014 budget.

Part A

Overview – Political and Social

Since our 2009 Timor-Leste Tax and Investment Guide, Timor-Leste has continued down a path of cautious political, social and economic development. Nevertheless, to understand the investment and taxation regimes applicable in Timor-Leste today it is important to understand some of this evolutionary process.

1. Historical

Beginning with Portuguese and Dutch traders in the early 16th Century the island state of Timor-Leste (known as East Timor until 2002) has been under various forms of foreign influence until its recent transformation to an independent democratic republic commencing in 1999 (see below).

From around 1515 until the Second World War Timor-Leste was a Portuguese colony. Japan assumed control of the island region from 1942 – 1945. Portugal however reassumed control at the end of WWII until a coup in Lisbon in April 1974 led to the break-up of many Portuguese colonial territories.

Independence movements then gained momentum in Timor-Leste and three main political parties evolved: the União Democrática Timorense (UDT) which favoured a gradual approach to independence; the Frente Revolucionária do Timor-Leste Independente (Fretilin) which advocated immmediate independence; and the Associação Popular Democratica Timorense (Apodeti) which supported integration with Indonesia.

In local elections held on 13 March 1975 Fretilin and UDT emerged as the largest parties having formed an alliance to campaign for independence (although this alliance later broke down). On 11 August 1975 UDT launched a

coup in an attempt to prevent the ascendancy of Fretilin while on 28 November 1975 Fretilin unilaterally declared Timor-Leste an independent republic. Notwithstanding this on 7 December 1975 Indonesia assumed control of Timor-Leste.

2. Indonesian Era

From 1975 to 1997 Timor-Leste's economic progress was largely unknown (although during the period from 1983 – 1997 annual growth was reported to be an estimated 6% p.a.).

The late 1990s saw the onset of the Asian Financial Crisis and the resignation of Indonesia's President Suharto. On 27 January 1999, the new President of Indonesia BJ Habibie announced a Plebiscite on East Timorese independence. In May 1999, an agreement was reached under the auspices of the UN to begin the process towards such a vote. On 30 August 1999, the East Timorese voted in favour of independence with a 78% majority.

3. Timor-Leste Independence

With the 30 August 1999 Plebiscite, Timor-Leste elected to "begin a process of transition towards independence". On 25 October 1999, the United Nations' Security Council issued Resolution 1272 pursuant to which effective authority for the administrative of Timor-Leste was transferred to the United Nations' Transitional Administration in East Timor (UNTAET) headed by the Special Representative of the Secretary General. This transfer included all legislative, judicial and executive authority.

On 30 August 2001, elections for Timor-Leste's first Constituent Assembly took place. Fretilin won 55 of the 85 available seats and Mari Alkatiri was nominated Chief Minister of a transitional Council of Ministers.

On 22 March 2002 a Constitution was approved by the Constituent Assembly. The framework adopted a unicameral system (i.e. single chamber) of parliament (renamed as the National Parliament) with key executive authority resting with the Prime Minister who was to be elected by the Parliament. The Presidential role was vested with certain veto powers but was otherwise largely ceremonial. Both the President and the Parliament were to be elected for five year terms.

On 14 April 2002, elections for Timor-Leste's first President took place with Xanana Gusmão obtaining an 85% majority.

On 20 May 2002, Gusmão was sworn in as Timor-Leste's first President. Full administrative authority also passed from the UNTAET to the newly established Timor-Leste Government led by Mari Alkatiri as (by then) Prime Minister. On the same day, a new Timor Sea Treaty was agreed between Timor-Leste and Australia (see below).

4. Post Independence Events

The immediate post 2002 era featured a degree of political and social instability. This included a period of civil disturbance in 2006 which led to Australian-led peacekeepers (as the International Stabilisation Force) being invited to enter the country to help restore order.

On 26 June 2006, Mari Alkatiri resigned as Prime Minister and was replaced by his then Foreign Minister, José Ramos-Horta on 10 July 2006.

In the lead-up to the 2007 elections, Xanana Gusmão announced that he would not seek a second term as President while José Ramos-Horta resigned as Prime Minister to run as a Presidential candidate. Estanislau da Silva succeeded José Ramos-Horta as Prime Minister.

On May 20, 2007, as part of the second cycle of elections, José Ramos-Horta was elected as Timor-Leste’s second President. On 30 June 2007, Parliamentary elections took place and whilst Fretilin, led by Mari Alkatiri, won the most seats these were insufficient to form government. On 6 August 2007, President Ramos-Horta asked Xanana Gusmão, who led the National Congress for Timorese Reconstruction (CNRT), to lead a coalition government. Gusmão was sworn in as Prime Minister on 8 August 2007.

A further cycle of elections was held in 2012. On 20 May 2012, the same day that Timor-Leste marked the tenth anniversary of its independence, Taur Matan Ruak was sworn in as Timor-Leste's third President. In the 2012 Parliamentary elections, Xanana Gusmão’s CNRT won 30 of the 65 parliamentary seats and formed a coalition government with the Democratic Party (8 seats) and Frenti-Mundanca (2 seats). Gusmão was sworn in for his second term as Prime Minister on 8 August 2012.

Both the United Nations Peacekeeping Mission and the Australian-led International Stabilisation Force withdrew from Timor-Leste at the end of 2012.

Part B

General Investment

1. Commercial Laws

a) Historical

From 25 October 1999 until 2004 Timor-Leste had no comprehensive commercial or investment framework (outside of the JPDA). Most investment was carried on through unincorporated arrangements or through branches of foreign entities.

On 7 June 2005, the Law on Domestic Investment No.4/2005 was passed and on 7 July 2005, the Law on External Investment No.5/2005 was passed. These two laws served as an initial framework to support commercial activity. The Law on Domestic Investment and the Law on External Investment have since been replaced by the Private Investment Law No.14/2011 (see below).

b) Law on Commercial Companies

On 21 April 2004, the Government introduced the Law on Commercial Companies No.4/2004. Law No.4/2004 provides a framework for basic commercial undertakings including:

i) the recognition of various economic arrangements including general and limited partnerships, limited liability companies and joint stock companies;
ii) the recognition of a distinct legal personality for incorporated entities;
iii) guidelines for ordinary and extraordinary general meetings;
iv) guidelines for paid-up capital;
v) guidelines for profit participation and the voting rights of shareholders;
vi) guidelines for the maintenance of registered offices, etc.;
vii) the regulation of directors (including that at least one director reside in Timor-Leste); and

viii) guidelines for various secretarial matters including a requirement for a company secretary and audit committees.

On 1 March 2006, Decree Law No.7/2006 was issued which provides the mechanics for business registration.

On 1 December 2010, the Government issued Decree Law No.18/2010 to provide a "special regime for immediate incorporation of companies". This allows for the electronic creation of entities where specific conditions are met.

c) Private Investment Law

On 28 September 2011, the Government issued the Private Investment Law No.14/2011 (PIL) as the main legislative framework for regulating private investment. Key features of the PIL include:

i) that all business sectors are open to foreign investment unless reserved for the State (e.g. postal services, public communications, protected natural areas, weapons production etc.) or restricted by law (such as criminal and immoral activities);

ii) that there be equal treatment of foreign and national investors;
iii) that the PIL have wide application with excluded activities being limited to:
  - petroleum mineral activities;
  - retailing; and
  - the trading of real estate;
iv) the creation of a Specialised Investment Agency (TradeInvest Timor-Leste) responsible for promoting and registering private investment;
v) the introduction of an Investor's Certificate to formalise the obligations, benefits and incentives of investors;
vi) the grant of "incentives" for investing (or reinvesting) a minimum of:
  - US$50,000 (10% in cash) for a resident national investor;
  - US$1,500,000 (50% in cash) for a foreign or non-resident national investor; or
  - US$750,000 for a partnership between foreign and national investors where the national investors control at least 75% of voting rights;
vii) that incentives are to consist of a five to ten year exemption from:
  - Income Tax;
  - Sales Tax (for goods etc. used in the construction or management of the project);
  - Services Tax (for ventures involving specialised services as listed in the TDA);
  - Import Duties (for all capital goods used in the construction or management of a project);
  - more advantageous incentives for investment outside of Dili and Baucau.
viii) the right to freely employ foreign workers (subject to an obligation to employ and train Timorese workers whenever possible);
ix) that there be a full tax deduction for the cost of:
  - training Timorese workers under a capacity building plan;
  - the construction and repair of roads not associated with the exercise of the business but which benefit populations in the respective area;
x) the opportunity to lease State-owned land for up to 50 years (renewable once for an equal period);
xi) the opportunity for special investment agreements for activities of national interest; and
xii) an entitlement to freely transfer abroad funds arising from an investment in Timor-Leste.

2. Land Laws

This is an area still undergoing legislative development. At the moment, Law No.1/2003 on Property and UNTAET Regulation No.2000/27 of 14 August 2000 provide a broad framework for the ownership and leasing of real property

(although property rights established under the Portuguese and Indonesian eras may still be recognised).

Overall, only "Timorese nationals" (individuals or corporations) have the right to private land ownership. Foreigners may alternatively lease land for up to 50 years (renewable once for an equal period).

Parliament is currently considering a package of land laws – the Law on the Special Regime for Definition of Ownership of Immovable Property, the Real Estate Fund Law and the Expropriation Law – which were released for comment in November 2012 and approved by the Council of Ministers on 25 June and 9 July 2013.

3. Banking Laws

From 1999 central banking functions were carried out via a number of authorities set up under UNTAET.

Pursuant to Law No. 5/2011 of 13 September 2011 the Government established Banco Central de Timor-Leste (BCTL) as Timor-Leste's central bank. BCTL operates as the clearing house for inter-bank payments and as a banker to the Government. BCTL also engages in banking operations for the Government and public administration including management of Timor-Leste's financial and external reserves.

A number of commercial banks currently operate in Timor-Leste including ANZ and Bank Mandiri.

The official currency of Timor-Leste is the US dollar.

4. Government Investment Plans

a) General

National investment priorities are set out in the Strategic Development Plan 2011-2030. Foreign direct investment in Timor-Leste is formally welcomed. In addition to the oil and gas industry major investment opportunities are stated as existing in relation to infrastructure, services, tourism and agriculture.

b) Infrastructure Plans

On 26 August 2012, the Program of the Fifth Constitutional Government 2012-2017 was released as an update to the Strategic Development Plan July 2011. Infrastructure priorities outlined included:

National roads:

i) to deliver a comprehensive roads' maintenance program;
ii) to rebuild all national and district roads to an international standard by 2020;
iii) to construct new bridges for all-weather access on major routes within five years and the remainder of national and district roads by 2030;
iv) to build road infrastructure required to support the development of the south coast; and
v) to establish national standards for a ring road by 2030.

Water and sanitation works:

i) to invest in major water and sanitation works in rural, regional and urban areas, as well as for schools, clinics and hospitals.

Renewable energy and rural electrification:

i) to build low cost and easy to install solar and wind projects to provide 10% of energy needs;
ii) to commence the construction of the Lariguto and Bobonaro wind farms with both being connected to the National Grid;
iii) to establish a Solar Centre in Hera; and
iv) to conduct feasibility studies on thermoelectric power and investigate biomass fuel options in Manatuto, Viqueque and Lautém.

Ports:

i) to build a multi-purpose national port at Tibar (capacity of 1 million tonnes p.a.);
ii) to build an international standard road from Díli to Tibar; and
iii) to establish a logistics base for the petroleum sector in Suai including a new port.

Airports:

i) to expand the International Airport in Díli to allow for one million passengers p.a. by 2020;
ii) to rehabilitate/build new airstrips at Suai, Oecussi, Lospalos, Maliana, Viqueque, Atauro and Same; and
iii) to develop Baucau airport as a cargo airport and military air base.

Telecommunications:

i) to connect Timor-Leste to both inland and subsea national fibre-optic telecommunication cables.

Petroleum – Tasi-Mane project:

i) to build infrastructure for petroleum development on the south coast of Timor-Leste in three industrial clusters including the Suai Supply Base cluster, the Betano Refinery and Petrochemical cluster, and the Beaco LNG-Plant cluster (preliminary design and construction work having already commenced).

c) Public/Private Partnerships

On 7 September 2012, Timor-Leste issued Decree Law No.42/2012 as the first step in providing a framework for public/private partnerships. The Law was amended on 5 November 2013 to extend PPP agreements from construction and execution only to design, construction, operations and maintenance of public infrastructure and related services. The Law was amended again on 21-22 November 2013 to approve the necessary structures for the implementation of PPPs and to establish procedures through all phases of a PPP project.

On 6-8 March 2013, the Government of Timor-Leste, with support from the IFC, held an international investor conference for the first two PPP projects – the Tibar Bay Port and the Dili Airport upgrade. The Tibar Bay Port project went to prequalification stage in October 2013.

5. Other Relevant Laws

These include:-

i) Decree Law No. 7/2006 – Code of Business Registration;
ii) Decree Law No. 5/2011 – Environmental Licensing Decree;
iii) Law No. 10/2011 – Civil Code; and
iv) Law No. 4/2012 – Labour Code.

Also of note is the the Decision of the Secretary of State for Professional Training and Employment Policy (SEPFOPE) No. 232/SEPFOPE-GSE/D/X/2013 on the employment of foreign employees. This includes provisions that:

i) positions must be advertised locally before hiring foreigners;
ii) employers must employ at least two Timorese nationals before hiring foreigners;
iii) each foreign employee must work together with at least one Timorese national to transfer knowledge and experience;
iv) all foreign workers must be approved by SEPFOPE; and
v) work places will be inspected every six months.

Part C

Taxation-Non Petroleum

IMPORTANT: Whilst Timor-Leste has endeavoured to consolidate its taxation system four separate taxation regimes still exist for Timor-Leste's sovereign territory and the areas identified in the Timor Sea Treaty (TST). Please refer to Appendix B – Tax Regime Matrix for a summary of each regime.

This Part C focuses on the application of the Taxes and Duties Act (TDA) to non-Petroleum Operations in the exclusive territory of Timor-Leste (i.e. excluding the JPDA). Please see Part D for an outline of the taxation of Petroleum Operations including the modifications applicable for the JPDA and for the Bayu-Undan and Greater Sunrise projects.

1. Historical

From a taxation point of view, Timor-Leste fell under the umbrella of Indonesia's tax regime from 1975 until 24 October 1999 (being the day before the UNTAET assumed authority as a result of the 30 August 1999 Plebesite - see Part A).

On 27 November 1999, the UNTAET issued Regulation 1999/1 which provided that all laws applying in Timor-Leste prior to 25 October 1999 (i.e. Indonesian Law) should continue to apply until replaced by the UNTAET or by subsequently established democratic institutions of Timor-Leste.

On 8 March 2000, the UNTAET issued Regulation 2000/12 entitled a Provisional Tax and Customs' Regime for East Timor. Regulation 2000/12 was transitional in nature and levied an excise on the import, domestic production and export of certain goods. Regulation 2000/12 had application from 8 March 2000.

On 20 December 2000, the UNTAET issued Regulation 2000/18 entitled A Revenue System for East Timor. Regulation 2000/18 (as amended by the Revenue System Amendment Act 2002) provided the basis for Timor-Leste's first comprehensive taxation regime (other than for the area covered by the Timor Sea Treaty - see Part D). Particularly in regard to Income Tax, Regulation 2000/18 largely adopted the Indonesian Tax Law then in place but with specified modifications. Regulation 2000/18 had general application from 1 July 2000 although certain Income Tax amendments applied from 25 October 1999.

2. Current taxation regime (the TDA)

As indicated above from 25 October 1999 to 1 January 2008 (for annual taxes) and 1 July 2008 (for all other taxes) Regulation 2000/18 effectively constituted the taxation regime in Timor-Leste.

On 25 June 2008, the Timor-Leste parliament passed the Taxes and Duties Act (Law No.8/2008) (the TDA). The TDA has effect from 1 January 2008 for annual taxes and from 1 July 2008 for all other taxes. The TDA applies to the territory of Timor-Leste including the JPDA (except for the so-called Annex F PSCs - see Part D).

On 26 June 2012 Implementing Regulations to the TDA were issued as Regulation TDA-IX/2012. This exclusively dealt with Petroleum Operations (see Part D).

The TDA repealed UNTAET Regulation 2000/18 (as well as UNTAET Directive No.2001/2 and the Petroleum Tax Act) to provide a single framework for the imposition of tax in Timor-Leste (subject to the overlay of the TST).

However, the TDA did not repeal the legal regime applicable for the collection and recovery of tax, for tax offences and for tax sanctions meaning that Regulation 2000/18 continues to apply in these areas (see below).

Significant features of the TDA (excluding those for Petroleum activities set out in Chapter IX - see Part D) include:

i) a reduction in the maximum Wage Income Tax rate for resident natural persons from 30% to 10%;
ii) a top corporate tax rate of 10% as applied to taxable income (although certain income is "final taxed" on a withholding basis-see below);
iii) taxable income calculated according to "normal" accounting principles as modified by certain tax adjustments;
iv) upfront deductibility for business inputs. This extends to all capital items including buildings (but excluding land) and trading stock which may be depreciated at 100% during the year of acquisition;
v) a denial of interest deductibility (unless incurred by a financial institution);
vi) the indefinite carry forward of losses;
vii) internationally familiar concepts of residency and source;
viii) an extensive collection of cross-border and domestic withholding taxes;
ix) reductions in the rates of Import Duty (from 6% to 2.5%); and
x) reductions in the rates of Sales Tax on imported goods (from 6% to 2.5%).

3. Income Tax

a) Scope of Taxation

The TDA broadly seeks to levy tax on all increases in economic capacity in whatever name or form which can be used for consumption or to increase the wealth of taxpayers.

Taxpayers include legal and natural "persons". "Legal persons" include a wide range of entities such as companies, partnerships, trusts, governmental institutions and unincorporated associations. A "natural person" means any individual.

There is an internationally recognisable and extensive permanent establishment (PE) definition.

b) Residency and Source

Resident “legal persons” are those incorporated, formed, organized or established in Timor-Leste including the undivided estate of a natural person who was a resident natural person immediately before death.

Resident “natural persons” include natural persons present in Timor-Leste for more than 183 days in a 12 month period (unless that person's permanent place of abode is not in Timor-Leste) and employees of the Timor-Leste government who are posted abroad.

Timor-Leste residents are taxable on world-wide income/profits. Non-residents are taxable on Timor-Leste sourced income/profits only.

Residents earning foreign sourced profits and income can receive credits for foreign taxes suffered.

c) Rates of Tax

Natural Persons

The rates of Income Tax for resident natural persons are as follows:

Annual Income	Rate
0 – US$6,000	0%
in excess of US$6,000	10%

Wages that have been correctly subject to Wage Income Tax (WIT) (see below) are not subject to Income Tax.
For non-resident natural persons the rate of Income Tax is 10% on all Taxable Income.

Legal Persons

The rate of Income Tax for Legal Persons is a flat rate of 10% on Taxable Income. However, a number of business activities will be subject to a “final” Income Tax to be withheld by the payer (see Withholding Taxes below).

d) Business Profits

Taxable business profits are computed on the basis of net profit determined under International Financial Reporting Standards subject to certain modifications.

Broadly, income is assessable when "receivable" while expenses are deductible when "payable". A taxpayer with turnover of less than US$100,000 may however, elect to pay tax on a cash basis.

e) Calculation of Taxable Income

For Timor-Leste residents, taxable income is essentially the difference between "gross income", whether domestic or foreign sourced, and "allowable deductions".

Gross income is defined widely to mean "any realised increase in economic capacity in whatever name or form which can be used for consumption or to increase the wealth of the taxpayer, other than wages that are subject to WIT."

Gross income specifically includes:

i) business income (including gains from business activities, and the alienation of assets or the discharge of indebtedness);
ii) property income (including dividends, royalties, interest and rent);
iii) lottery prizes or awards; and
iv) a refund of a tax payment previously deducted as an expense.

Where certain types of income are subject to withholding tax which is final, that income is excluded from taxable income (see withholding taxes below).

f) Exempt Income

Whilst the definition of gross income is broad there are a number of categories of exempt income. These include:

i) amounts received as aid or donations, provided that the donor and donee do not have any business, ownership or control relationship;
ii) gifts received by relatives within one degree of direct lineage, or by a religious, educational, or charitable organisation, or a co-operative, provided that the donor or donee does not have any business, ownership, or control relationship;
iii) inheritances;
iv) assets (including cash) received by a legal person in exchange for shares or a capital contribution;
v) amounts paid by an insurance company to a natural person in connection with health, accident, life, or education insurance;
vi) dividends;
vii) any contribution paid by an employer or employee to an approved pension fund;
viii) income derived by an approved pension fund; and
ix) remuneration financed out of the Trust Fund for East Timor.

g) Allowable Deductions

With the exception of interest the TDA provides for a wide range of allowable deductions (see also Depreciation below). Specifically, the TDA provides that the following are deductible:

i) expenditure and losses to the extent incurred on the alienation of assets or the discharge of indebtedness in the conduct of a taxable business activity;
ii) expenditure incurred in deriving any other amounts included in gross income;
iii) any loss on disposal of an asset other than assets held on personal account;
iv) contributions to an approved pension fund; and
v) bad and doubtful debts (subject to various tests).

h) Depreciation/Amortisation

The TDA provides for the depreciation of "depreciable assets" and "business buildings" and for the amortisation of "intangible assets".

"Depreciable assets" include any tangible movable property that has a useful life exceeding one year, is likely to lose value as a result of wear and tear, exploitation or obsolescence, and is wholly or partly used in the conduct of taxable business activities.

"Intangible assets" include all other property, other than tangible movable property or immovable property, that has a useful life exceeding one year and is used in the conduct of taxable business activities.

There are provisions for the election of either straight line or diminishing value methods, the pooling of assets and di minimus exceptions.

The rate of tax depreciation/amortisation for non-Petroleum Operations is however set at 100% meaning taxpayers are in effect entitled to a full and upfront deduction. In circumstances where the asset is only partly used for the conduct of taxable business activities the deduction is reduced by the proportion of its non-taxable business use.

i) Non-Allowable or Conditional Deductions

Each of the following expenditure is specifically not deductible:

i) amounts constituting the distribution of profit, in whatever name or form, such as dividends and including dividends paid by an insurance company to a policy holder or any distribution of surplus by a co-operative;

ii) expenses charged or incurred for the personal benefit of shareholders, partners or members;
iii) reserves, other than as provided for under the TDA;
iv) premiums for health, accident, life, or education insurance paid by a natural person except if the premiums are paid by an employer in respect of an employee and the premium is treated as income of the employee;
v) excessive pay or compensation paid by a legal person to a member of the legal person, or paid between associates, as consideration for work performed;
vi) gifts, aid, donations or inheritances if exempt from Income Tax in the hands of the recipient;
vii) Timor-Leste or foreign income tax;
viii) costs incurred for the personal benefit of an income taxpayer or the taxpayer's dependents;
ix) salaries paid to a partner in a partnership;
x) late payment interest, penalties and fines imposed for non-compliance with the TDA;
xi) interest expenses unless incurred by a financial institution;
xii) a fine or other monetary penalty imposed for violation of any law, rule or regulation;
xiii) a bribe or any similar payment; and
xiv) expenditure or losses incurred to the extent recoverable under a policy of insurance or a contract of indemnity.

j) Losses

Previously, losses could be carried forward for a maximum of 5 years. The TDA now provides that losses incurred post 1 January 2008 may be carried forward indefinitely (with pre-2008 losses still limited to five years). The carry-back of losses is not permitted. There is no provision for any form of consolidated filing or group loss relief.

k) Transfer Pricing

Whilst there is a definition of "associates" the TDA does not contain specific provisions for related party transactions or a general transfer pricing regime for non-Petroleum Operations.

l) Administration

Income Tax returns are to be filed annually by the 15th day of the third month following year end. The standard tax year is the calendar year although different accounting year-ends can be granted upon application. Any Income Tax payable is also due by the 15th day of the third month.

Businesses with an annual turnover of $1m or more in the previous fiscal year are required to pay monthly Income Tax instalments (at 0.5% of monthly turnover). Businesses with an annual turnover of less than $1m are required to make quarterly instalments.

4. Withholding Tax (WHT)

a) Historical

Until 24 October 1999, the WHT rules were as set out in Indonesia's Income Tax Law. For the period 25 October to 31 December 1999 all income was exempt from Income Tax meaning no withholding obligation existed. Effective 1 January to 31 December 2000 all WHT rates were reduced to zero. The income was still however subject to tax in the hands of the recipient at the standard tax rates (maximum of 30%). From 1 January 2001 to 30 June 2008 WHT was applied at rates ranging between 2% and 15% for residents, and 20% for non-residents (final and non-final).

b) Post 30 June 2008

WHT arrangements have been simplified under the TDA. The payments caught from 1 July 2008 are as follows:

		Rate	Final Tax
A. Payment by residents to a resident for:			
1	Royalties	10%	N
2	Rent (Land & Buildings)	10%	N
3	Prizes and Winnings	10%	Y
4	Construction/Building Activities	2%	Y/N*
5	Construction Consulting Services	4%	Y/N*
6	Air or Sea Transportation	2.64%	Y/N*
7	Mining & Mining Support Services	4.5%	Y/N*
B. Payment by residents to a non-resident		10%**	Y

* The Default position is that such amounts will be final taxed. The income recipient can elect to have these payments for services not subject to final tax by submitting a notification letter to the National Directorate of Petroleum and Minieral Revenues or National Directorate of Domestic Revenue as appropriate.
** applies to all payments of Timor-Leste source income to non-residents, other than those to which points 4-7 apply or payments to a PE of a non-resident.

Where WHT is applied as a final tax the income is not included in the income recipients' calculation of taxable income for Income Tax purposes. Correspondingly, expenses incurred in deriving income which is subject to final tax are not deductible for Income Tax purposes.

c) Administration

WHT is required to be remitted and reported (in a monthly return) by the income payer on a monthly basis by the 15th day of the month following the relevant withholding. There is no annual return or reconciliation for WHT.

5. Services Tax

a) Historical

Services Tax was originally due under Regulation 2000/18 from 20 March 2000 to 30 June 2008.

b) General/Transitional

From 1 July 2008, Services Tax is imposed on the gross consideration received by a person for the provision of "designated services".

"Gross consideration" includes all amounts received for the provision of the designated services. The TDA has removed a number of designated services to which Services Tax would apply (e.g. rental services). Services Tax does not apply to services performed in the JPDA.

Designated services, and the Service Tax rates, are as follows:

Service	Service Tax Rate*
hotel services;	0% or 5%
restaurant and bar services; and	0% or 5%
telecommunication services	0% or 5%

*5% rate applies where monthly turnover ≥ US$500

c) Administration

Providers of "designated services" must complete a monthly Services Tax form and make monthly remittances. The forms and remittances are due by the 15th day of the month following the provision of the relevant services.

6. Excise Tax

a) Historical

Excise Tax was originally due under Regulation 2000/18 from 20 March 2000 to 30 June 2008.

b) General

From 1 July 2008, Excise Tax is imposed on the import or domestic production (but not both) of certain goods.

c) Rates of Tax

The list of goods subject to Excise Tax is extensive. Selected goods and rates of Excise Tax are as follows:

General Description of Goods	Rates
Beer	US$1.90 per litre
Wine, vermouth, and other fermented beverages (for example, cider, sherry)	US$2.50 per litre
Ethyl alcohol (other than denatured) and other alcoholic beverages	US$8.90 per litre
Tobacco and tobacco products	US$19.00 per kg
Gasoline, diesel fuel, and other petroleum products	US$ 6¢ per litre
Small passenger vehicles with an excise value exceeding US$70,000	35% of the excise value above US$70,000
Arms and ammunition	200% of the excise value
Cigarette lighters	12% of the excise value
Smoking pipes	12% of the excise value
Pleasure boats and private aircraft	20% of the excise value

Note: the excise value of excisable goods imported into Timor-Leste is the total of the customs value and any Import Duty imposed. The excise value of excisable goods manufactured in Timor-Leste is their fair market value at the time of removal from the manufacturer's warehouse.

d) Basis of Taxation

For imported goods the taxpayer is the importer. For goods produced domestically the taxpayer is the producer. A good is considered produced at the earlier of the time it is available for sale/consumption or is actually sold.

Goods are exempt from Excise Tax if they exported from Timor-Leste within 28 days of production, or if they are exempt from Import Duty, or if they relate to the JPDA.

e) Administration

For imports, Excise Tax is payable at the time of import. For domestic production the taxpayer must complete an Excise Tax form and make a monthly remittance. The returns and remittances are due by the 15th day of the month following the relevant import or production event.

7. Import/Export Duty

a) Historical

Import/Export Duty was initially due under Regulation 2000/8 from 20 March 2000 to 30 June 2008.

b) General

From 1 July 2008, Import Duty is imposed on the import of all goods (except specifically exempted goods) at a rate of 2.5% of the "customs value" of the goods.

"Customs value" is the fair market value of the goods including cost, insurance and freight (CIF) per GATT rules.

The liability to Import Duty rests with the importer. There are a number of exemptions including for goods:

- i) which accompany an individual upon arrival into Timor-Leste (limits apply);
- ii) which are re-imported after export;
- iii) imported on a temporary basis;
- iv) constituting certain infant and female hygiene products; and
- v) which fall under the Timor Sea Treaty.

8. Sales Tax

a) Historical

Sales Tax was originally due under Regulation 2000/8 from 20 March 2000 to 30 June 2008.

b) General

From 1 July 2008, Sales Tax is imposed on the importation of goods to Timor-Leste, the sale of goods and the provision of services in Timor-Leste.

c) Rates of Tax

Description	Sales Tax
Imported taxable goods into Timor-Leste	2.5%
Sale of taxable goods in Timor-Leste	0%
Provision of taxable services in Timor-Leste	0%

*5% rate applies where monthly turnover ≥ US$500

d) Basis of Taxation

The basis of taxation for goods imported to Timor-Leste is the customs value of the goods increased by any Import Duty and Excise Tax payable on the importation of the goods.

e) Administration

For the importation of goods, Sales Tax should be collected during the clearance of goods.

9. Wage Income Tax (WIT)

a) Historical

For the period 25 October to 31 December 1999, employment related income was exempt from all taxes. Effective 1 January to 31 December 2000, the salary related withholding tax rate was reduced to zero although the income was still taxable directly at the top Income Tax rate of 30%. For wages received on or after 1 January 2001, WIT due under Regulation 2000/18, rather than Income Tax, was imposed.

b) General/Transitional

From 1 July 2008 the TDA reduces WIT to a maximum of 10% in line with the reduced Income Tax rate (please note that a tax rate of 30% will apply to employees who do not supply a Tax Identification Number to their employer – see "Registration" below).

c) Scope of Taxation

WIT applies to both cash salary and "fringe benefits" i.e. both constitute "taxable wages" and are taxable to the employee.

WIT is due on wages paid to a person who is "in employment in Timor-Leste".

Employment in Timor-Leste means services performed in Timor-Leste or services performed by an employee of the government whether performed in Timor-Leste or elsewhere.

Taxable wages constitutes “wages” received by an employee other than exempt wages. Exempt wages include:

i) wages received for official duties that are exempt from taxation under the law;
ii) 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 that the wages are subject to Income Tax in that country;
iii) wages of an employee who is an employee of the United Nations or its specialized agencies; and
iv) remuneration received by any individual if the remuneration is financed out of the Trust Fund for East Timor.

d) WIT Rates

The rates of WIT are as follows:

i) if the employee is a resident natural person:

Monthly taxable wages	Rate
US$0-US$500	0%
Above US$500	10% of the amount of wages above US$500

ii) if the employee is a non-resident natural person, 10% of the taxable wages received by the employee. If an employee receives taxable wages for a period of less than one month then the rates of WIT are imposed on a pro rata basis.

In all cases, WIT is withheld and remitted by the employer. Where WIT has been correctly withheld no further Income Tax is due on those wages.

e) Administration

Employers are required to withhold WIT from wages. Employers must also complete monthly returns and remittances. The monthly returns and remittances are due by the 15th day of the month following the relevant wage payment. An annual return is due by the last day of February following the end of the relevant tax year. Information on WIT withheld must also be provided to each employee on an annual basis or on termination of employment.

10. Fiscal Administration

As previously mentioned, the TDA does not contain tax administration provisions. The TDA also does not repeal the previous law in respect of the administration and collection of tax and the provisions relating to tax offences and sanctions as applied under UNTAET No. 2000/18.

a) General/Historical

Pursuant to Resolution 1272 of 25 October 1999, the UNTAET was established with overall administrative responsibility over Timor-Leste. Pursuant to UNTAET Regulation 2000/1, UNTAET established the Central Fiscal Authority (CFA). Post the election of Timor-Leste's first parliament the CFA's role was replaced by the Minister for Planning and Finance (now the Minister of Finance - MoF).

The MoF is responsible for (amongst other things):

i) the overall financial budget;
ii) the overall fiscal strategy; and
iii) the operation of the Timor-Leste Revenue Service (TLRS). The TLRS has since been reconstituted as the Directorate General for Revenues which consists of the National Directorate of Petroleum and Mineral Revenues (NDPMR) and the National Directorate of Domestic Revenues (NDDR).

The NDPMR and the NDDR are each headed by a National Director. The Directors' obligations include the enforcement of regulations in relation to the collection of taxes, duties and fees. These obligations may be delegated.

b) Registration

Most persons liable to tax are required to obtain a unique Tax Identification Number (TIN). Businesses are required to register for a TIN. If an employee does not supply a TIN to their employer, then the employer is required to deduct WIT at 30%. A register of TIN's is maintained by the National Director.

c) Assessments

Assessments may occur as follows:

i) upon the delivery of a tax return and tax payment;
ii) after receipt of a return where the National Director believes a return is incorrect; and
iii) where a taxpayer fails to file a return.

Assessments may be amended:

i) by the taxpayer upon delivery to the National Director;

ii) via a taxpayer request to the National Director; and
iii) via specific action of the National Director.

Amendments resulting in tax refunds are to be applied first against any other outstanding taxes (including interest on such amounts). The National Director has 5 years from the date the return was due in order to assess or amend. If deliberate evasion or fraud is involved there is no time limit.

Where tax is not paid on time the National Director may take action in the Courts. Unpaid tax also creates a lien over taxpayer property. This can extend to property controlled by an agent or partners. Directors may be exposed if they caused the company not to pay.

d) Books and Records

Taxpayers are required to create records showing the calculation of their tax liability. The records must be kept in an official language and for a period of 5 years after the relevant tax year.

The National Director has wide powers to review, make copies, seize or retain such records. The National Director also has powers allowing for the collection of information in regard to a taxpayer's affairs from third parties.

e) Rulings

The National Director is entitled to issue rulings on the National Director's interpretation of the law. The rulings are binding on the National Director.

The National Director is entitled to issue a private ruling to a particular taxpayer. A private ruling is also binding on the National Director.

f) Appeals

Taxpayers may make appeals in writing to the Appeals Division within 60 days of the date of receipt of any assessment in dispute. A decision of the Appeals Division is binding on the National Director.

If the Appeals Division has not delivered a written decision to the person making the appeal within 42 days of having received the written appeal the person may then take their appeal direct to the Board of Tax and Customs Appeals. Taxpayers may appeal a decision of the Appeals Division to the Board of Tax and Customs Appeals within 60 days of receiving the notice of decision.

The commencement of action in the Appeals Division or the Board of Tax and Customs Appeals does not extinguish a liability to pay the tax in dispute.

11. Other Fiscal Laws, etc.

a) Double Taxation Agreements

At the time of writing, Timor-Leste did not have any double taxation agreements (other than for the JPDA - see Part D). The Portugal – Timor-Leste Double Tax Agreement of 2011 was ratified by Portugal on 9 August 2012 but is yet to be ratified by Timor-Leste.

There was a question as to whether Timor-Leste effectively adopted Indonesia's tax treaties from 25 October 1999. Regulation 2000/18 removed any possible application with effect from 1 July 2001.

b) International Agreements/Collaboration

Areas of interest in this regard are as follows:

i) Timor-Leste and Portugal signed an Agreement on Mutual Protection and the Promotion of Investment in 2002;
ii) Timor-Leste signed a Bilateral Investment Treaty (BIT) with Germany in 2005. It is not believed that this has entered into force;
iii) at the time of writing Timor-Leste had not entered into any other Investment Promotion and Trade Agreements;
iv) Timor-Leste belongs to the Community of Portuguese Language Countries (CPLP);
v) Timor-Leste has formally applied for ASEAN membership (in March 2011) and recently expressed an interest in becoming a member of the Commonwealth of Nations.

c) Customs Law

There is a range of legislation concerning Customs activities in addition to the TDA. These laws include:

i) Decree Law 09/2003 – Customs Duties and Competencies.
ii) Decree Law 10/2003 – Legal and Tax Regime for the Customs Control of Goods and Items Carried by Travellers;
iii) Decree Law 09/2004 – Import, Storage and Movement of Goods Subject to Selective Excise Tax;
iv) Decree Law 10/2004 – Custom Tax Offences;
v) Decree Law 11/2005 – Status of Official Customs Brokers;
vi) Decree Law 08/2006 – Regulation of Customs Duties;
vii) Decree Law 05/2007 – Customs Fund;

An analysis of these laws is beyond the scope of this publication.

Part D

Taxation of Petroleum Operations

IMPORTANT: SCOPE OF PART D
This Part D outlines the taxation arrangements for Petroleum Operations both in Timor-Leste's exclusive area of sovereignty and in the JPDA. In this regard JPDA activities themselves are broken down according to whether activity is within the JPDA and then whether Annex F PSCs (covering the Bayu-Undan and Greater Sunrise projects) are involved.

SUB-PART 1 – REGULATORY BACKGROUND

1. Timor Sea – Historical

The Timor Sea area has been known to be rich in hydrocarbon deposits for many years. Rights in regard to the exploration and exploitation of these hydrocarbons have been the subject of contention between Australia and, depending upon the era, Indonesia, Timor-Leste or even Portugal, as the case may be. The contention has largely related to the delineation of the seabed boundary between Australia to the south and the relevant state to the north.

An initial Treaty was concluded between Australia and Indonesia in 1972. However the legality of this treaty was challenged at the time, particularly by Portugal, who had issued competing exploration permits.

In 1989 Australia and Indonesia agreed to jointly share in the exploitation of the disputed geographical area known as Zone A (i.e. Zone of Cooperation – A or ZOCA). The so-called Timor Gap Treaty was thereby signed on 11 December 1989

and became operative from 9 February 1991. Essentially, the Timor Gap Treaty provided as follows:

i) that ZOCA shall fall under the joint control of both Indonesia and Australia with equal sharing in the associated petroleum resources. This control was exercised by a Joint Authority containing representation from both countries;
ii) that exploration and exploitation activities in ZOCA were to be carried out pursuant to production sharing contracts (PSCs) entered into between the Joint Authority and the oil company in question;
iii) that ZOCA should be considered to be within the taxation jurisdictions of both Indonesia and Australia;
iv) that the business profits or losses of an entity carrying on business in ZOCA shall be taxable in both Indonesia and Australia, after being reduced by 50%. This effectively meant that the respective tax rates of Indonesia and Australia were halved; and
v) that the remuneration of an individual resident in Indonesia or Australia, arising from activities in ZOCA, shall be taxable only in the country of residence. Remuneration of third country nationals was taxable in both Indonesia and Australia with an entitlement to a 50% rebate in each country.

With the formal transfer of administration of Timor-Leste to the UNTAET on 25 October 1999 an exchange of notes took place between the UNTAET and Australia on 10 February 2000. Under the notes, the UNTAET assumed all rights and obligations under the Timor Gap Treaty on behalf of Timor-Leste but only until the date of Timor-Leste's full independence.

On 20 May 2002, full administrative authority for Timor-Leste passed from the UNTAET to the new Timor-Leste Government. On the same day, representatives of the Governments of Timor-Leste and Australia entered into the Timor Sea Treaty (as a successor to the Timor Gap Treaty). Ratification of this treaty was completed by both Governments on 2 April 2003 but with effect from 20 May 2002.

2. Timor Sea Treaty

The Timor Sea Treaty provides:

i) that the Joint Petroleum Development Area (JPDA) (formerly known as ZOCA) falls under the joint control and management of Timor-Leste and Australia. However, from 1 July 2008 day-to-day management responsibility passed to Timor-Leste's regulator, the National Petroleum Authority (Autoridade Nacional do Petróleo (ANP)) as the "designated authority" on behalf of both countries;

ii) that the JPDA includes all of the reserves constituting the Bayu-Undan field. However, the JPDA covers only 20.1% of the reserves making up the Greater Sunrise field (see below for specific tax regimes);

iii) that petroleum activities, covering exploration, development, processing, transportation and marketing of hydrocarbons are to be carried out pursuant to a contract between the ANP (as the designated authority) and the oil company in question;

iv) that the JPDA is considered to be within the taxation jurisdiction of both Timor-Leste and Australia;

v) that the tax rates in Timor-Leste and Australia are at 90% and 10% respectively of their normal levels; and

vi) that the remuneration of an individual resident in Timor-Leste or Australia arising from activities in the JPDA is taxable in both Timor-Leste and Australia.

With the ratification of the Timor Sea Treaty, Timor-Leste continued to maintain geographically distinct taxation regimes: one for Timor-Leste generally and the other covering the JPDA.

3. Annex F PSCs – Bayu-Undan and Greater Sunrise

Annex F of the Timor Sea Treaty separately identified four Production Sharing Contracts (PSCs) for specific fiscal treatment. These PSCs cover the discoveries known as Bayu-Undan and Greater Sunrise. The treaty preserved the taxation regime applicable to these areas to that in place immediately prior to the transfer of sovereignty to the UNTAET (i.e. on 25 October 1999). Subsequent agreements and legislation have been introduced dealing with these particular fields.

a) Bayu-Undan

On 6 June 2003, the Timor-Leste Government issued:

i) the Taxation of Bayu-Undan Contractors Act (ToBUCA); and
ii) the Timor Sea Petroleum Development (Tax Stability) Act.

In 2013 the Timor-Leste Government distributed ToBUCA Regulation No.19/2013 to apply from 1 January 2013 (at the time of writing this regulation was thought to be still in draft).

ToBUCA (and its regulations) relate to the taxation of the activities of petroleum contractors and subcontractors carried out in connection with the Bayu-Undan LNG project falling within JPDA PSCs 03-12 and 03-13. The ToBUCA arrangements specifically exclude activities connected to the Elang Kakatua Kakatua North (EKKN) fields within the JPDA PSC 03-12.

b) Greater Sunrise

The Greater Sunrise gas discovery falls within JPDA PSCs 03-19 and 03-20 and straddles the waters of the JPDA and waters claimed exclusively by both Timor-Leste and Australia (only 20.1% of the field lies within the JPDA). The project has been the subject of controversy for a number of years particularly in relation to how to develop the discovery (which remained unresolved at the time of writing).

On 6 March 2003, Timor-Leste and Australia entered into the International Unitisation of the Greater Sunrise Fields Agreement (the Sunrise IUA). The Sunrise IUA provides for the apportionment of petroleum production from the area with 79.9% belonging exclusively to Australia and 20.1% belonging to the JPDA.

On 12 January 2006, Timor-Leste and Australia entered into the Treaty on Certain Maritime Arrangements in the Timor Sea (CMATS) which came into force on 23 February 2007. CMATS provides that revenues from the area outside of the JPDA shall be shared equally between Timor-Leste and Australia. CMATS does not however disturb the taxation calculation under the Sunrise IUA.

CMATS also extended the duration of the Timor Sea Treaty to a maximum of 50 years (previously 30 years) and provided a moratorium in relation to the disputed permanent maritime boundary.

CMATS allows either Timor-Leste or Australia to terminate the agreement if a development plan for the Greater Sunrise field is not approved within six years (which passed on 23 February 2013). CMATS further provides that, should petroleum production take place after the termination of CMATS, the treaty shall nevertheless reinstate itself and operate from the commencement of production.

Disagreements over the delay in the development of Greater Sunrise resulted in Timor-Leste seeking arbitration (under Annex B of the Timor Sea Treaty) in April 2013 including that CMATS should be treated as invalid. The matter remained unresolved at the time of writing.

4. Non-Annex F PSCs

A number of other PSCs fall within the JPDA but did not attract preserved taxation arrangements under Annex F of the Timor Sea Treaty. These include JPDA PSC 06-105 which contains the Kitan oil field which was approved for development in April 2010 and commenced production in October 2011.

JPDA PSC 11-106, adjacent to the Kitan oil field, is the most recent JPDA PSC (awarded in April 2013). This is also the first PSC to involve equity participation by the recently established Timor-Leste national petroleum company known as TGEP (see below).

5. Other Oil & Gas Administrative and Legislative Developments

a) Initial Oil & Gas legislation

On 13 July 2005, Timor-Leste introduced its first sovereign laws in relation to Petroleum Operations encompassing the JPDA and Timor-Leste's exclusive areas (TLEA). These were:

i) the Petroleum Tax Law No.8/2005 (since repealed by the TDA);
ii) the Petroleum Activities Law No.13/2005 and Public Tendering in Respect of Petroleum Contracts Awards Decree Law No. 7/2005; and
iii) the Petroleum Fund Law No.9/2005 (since revised by Law No.12/2011).

These laws provided a revised legal and taxation framework for all Petroleum Operations in Timor-Leste including the JPDA. As noted above, the Petroleum Tax

Law has since been repealed by the TDA. The other two legislative frameworks remain in place.

b) Bid Rounds

In 2006 Timor-Leste conducted an inaugural offshore bid round for the TLEA. A total of six PSCs were awarded (see Appendices C & D for PSC details).

At the same time the Timor Sea Authority awarded 4 PSCs in a bid round for the JPDA. A 5th JPDA PSC was awarded as a conversion to an existing agreement.

In 2011 the ANP (see below) announced a second round of licensing which was ultimately carried out in 2013 with JPDA PSC 11-06 (see above) being awarded on 13 April 2013.

c) Establishment of the ANP and DAID

On 19 June 2008, the Government issued Decree Law No.20/2008 to create Autoridade Nacional do Petróleo (ANP) as the country's upstream industry regulator. ANP was granted wide authority to "manage and supervise" the rules and regulations covering the "explanation, development, production, transportation and distribution of petroleum and natural gas resources". Consequently, ANP was to be involved in the regulation of both the upstream and downstream sectors. The authority extended to the JPDA.

On 1 February 2012, Decree Law No.1/2012 was issued formalising ANP's regulatory management and supervision to all phases of downstream petroleum activities including control over the associated licensing.

On 3 September 2012, ANP issued Regulations No.1/2012 on downstream licensing and No.2/2012 on downstream inspection activities. These resulted in the creation of the Downstream Activities Inspection Division (DAID) as a downstream supervisory body reporting to ANP. Downstream covers a wide range of non-liftings activities including refining and processing.

d) Establishment of Timor GAP, E.P

On 27 July 2011, the Government issued Decree Law No.31/2011 to establish Timor GAP, E.P. (TGEP) as a wholly state-owned petroleum company. TGEP was mandated to operate commercially in both the upstream and downstream sectors both inside and outside of Timor-Leste (including the JPDA). All then existing commercial interests of the Government were transferred to TGEP as well as the right to enter into PSCs. TGEP is supervised by the Secretary of State for Natural Resources within the office of the Prime Minister and is governed by an independent Board of Directors. Firms that partner with TGEP receive preference in tenders for petroleum projects.

The first PSC involving TGEP being JPDA 11-106 as awarded in 2013 (see above) with TGEP holding a 24% interest and an ENI entity as operator.

e) Establishment of Petroleum Fund

On 22 September 2005, the Government issued Petroleum Fund Law No.9/2005 to establish a fund to invest proceeds from petroleum operations in Timor-Leste in order to contribute to the effective management of Timor-Leste's petroleum resources. As at December 2013, the Fund's balance was US$14.9 billion.

The Petroleum Fund Law was amended in September 2011 to allow for greater flexibility in terms of investments with up to 10% of Fund assets to be used as collateral for public borrowing within the Government's debt management system.

As per the Petroleum Fund Law withdrawals from the Fund for budget expenditure should be based on an Estimated Sustainable Income (ESI) calculated each year as 3% of the Fund's value. Between 2009 and 2012 there have been withdrawals from the Fund above the ESI. Withdrawals for 2013 are budgeted to be limited to the ESI.

SUB-PART 2 – NON-JPDA PETROLEUM OPERATIONS TDA REGIME – CHAPTER IX

1. General

The TDA consolidates the regimes imposing tax in Timor-Leste (including in the Petroleum sector) and applies as follows:
i) from 1 January 2008 (for annual taxes); and
ii) from 1 July 2008 (for all other taxes).

Chapter IX of the TDA contains special provisions for the taxation of "Petroleum Operations" for the territory of Timor-Leste. The TDA also extends to the JPDA but for JPDA activities this Sub-Part should be read in conjunction with Sub-Part 3. The TDA also repealed the Petroleum Tax Act (which had effect from 1 January 2005).

Petroleum Operations are defined in Chapter IX of the TDA to include authorised activities under a Petroleum Agreement such as a PSC or other agreement made pursuant to the Petroleum Act (except a Seepage Use Authorisation). Specific provisions for the taxation of Petroleum Operations include:
i) a corporate tax rate for Contractors (see definition below) of 30% on taxable income (although certain income is "final taxed" on a withholding basis);
ii) no tax due on branch profit remittances;

iii) where "net receipts" exceed specified levels a Supplemental Petroleum Tax applies;
iv) the "ring-fencing" of income and expenditure within the Contract Area;
v) modified deductibility rules including the deductibility of interest for Contractors and a modified depreciation regime;
vi) a specific WHT regime; and
vii) a Transfer Pricing regime.

2. Income Tax/WIT

a) Scope of taxation

The TDA applies to all activities carried out within Timor-Leste's sovereign territory. Chapter IX of the TDA however operates to modify the taxes (largely Income Tax) outlined in the TDA in respect of "Petroleum Activities". The Chapter IX modifications apply to Contractors, Subcontractors and any person (legal or natural) receiving an amount for goods or services supplied to a Contractor or Subcontractor.

Contractors are defined as persons who have an interest in a Petroleum Agreement with the Designated Authority in Timor-Leste. A Subcontractor includes any person supplying goods or services directly or indirectly to a Contractor in respect of Petroleum Operations.

Chapter IX includes specific modifications in respect of the Income Tax and WIT rules as set at Chapters VI and VII of the TDA. The modifications include an adjustment to the respective rates as follows:

Contractors
i) taxed at a flat rate of 30%;

Employees of Contractors
i) if the employee is a resident natural person* and has (or is deemed to have) provided their tax identification number:

Monthly taxable wages	Rate
US$ 0 – US$550	10%
Above US$550	US$55 + 30% of the amount of wages above US$550

* If the employee is a resident natural person he/she is entitled to a $10 tax credit per month against the WIT payable for the month.

ii) if the employee is a non-resident natural person the rate is a flat 20%;
iii) in any other case the rate is 30%.

No further Income Tax liability exists on income for Contractors or their employees under the TDA.

Subcontractors
Subcontractors will generally be taxed on a final withholding basis at a rate of 6% (see WHT below) for services provided to Contractors. Income obtained from services provided to non-Contractors could be subject to Income Tax at 10% of net income (see below).

b) Allowable Deductions

Subject to the limitations outlined below, all expenditure incurred by a Contractor in respect of Petroleum Operations is deductible, including interest, financing charges and amounts of Timor-Leste Income Tax (prior to the calculation of Supplemental Petroleum Tax). Specific rules on deductions for Petroleum Operations include:

i) ring fencing - expenditure incurred by a Contractor is only deductible against the Gross Income of such Petroleum Operations in the Contract Area in that year. The Contract Area is defined as the area originally granted under a Petroleum Agreement (but includes any subsequently relinquished areas);
ii) indefinite carry forward of excess deductions (excluding interest) – if in any year total deductions in a Contract Area exceed the total gross income arising from Petroleum Operations in that Contract Area then the excess can be carried forward and deducted in the following year until such excess is fully deducted or the Petroleum Operations cease;
iii) interest deductibility – unlike the general taxation provisions Contractors enjoy a limited deduction for interest expenditure. Interest deductibility is limited to the amount of interest income a Contractor has derived during a year and 25% of "net non-interest income" derived by the Contractor during the year. "Net non-interest income" is defined as gross income, less interest income, less deductions other than interest deductions. Any amount that is not deducted as a result of the limitation mentioned above may be carried forward and deducted as an interest expense for 5 years;
iv) head office expenditure of a PE – head office expenditure is deductible where not exceeding 2% of total deductible expenditures (excluding depreciation and head office expenditure deductions);
v) losses from asset sales – any loss from an asset sale is deductible provided the sale is conducted in an 'open market' and not below fair market value;

vi) Supplemental Petroleum Tax – deductible (see SPT section below);
vii) decommissioning Costs – specific provisions allow Contractors to deduct amounts carried to a decommissioning reserve. An amount is first deductible in the year when estimates of decommissioning costs are first charged as recoverable under a Petroleum Agreement;
viii) cost of acquiring an interest in Petroleum Operations – amounts incurred in acquiring an interest in Petroleum Operations are non-deductible; and
ix) training, apprenticeship and scholarship, and charity contribution – amounts incurred on training, apprentices and scholarships are deductible where not exceeding US$50,000. Charitable contributions are deductible up to US$200,000. These expenses also require Minister of Finance (MoF) approval.

c) Depreciation/Amortisation

Subject to the modifications outlined below, Contractors are entitled to depreciate all "depreciable assets" and amortise all "intangibles" in accordance with the general provisions of the TDA (see definitions above) from the commencement of commercial production.

Exploration Expenditure and Development Expenditure incurred under a Petroleum Agreement is treated as intangible expenditure and amortised on a straight-line basis in accordance with the following useful life criteria:
i) exploration expenditure – the lesser of the expected life of the Petroleum Operations under a Petroleum Agreement or 5 years;
ii) development expenditure – the lesser of the expected life of the Petroleum Operations under a Petroleum Agreement or 10 years.

Depreciation/Amortisation rates

The depreciation rates and useful lives of "depreciable assets" and "business buildings" are as follows:

Items	Useful Life	Depreciation Rate	
		Straight line	Double declining
Buildings – permanent	20 years	5%	N/A
Buildings – non permanent	10 years	10%	N/A
Assets	1 – 4 years	25%	50%
Assets	5 – 8 years	12.5%	25%
Assets	More than 9 years	6.25%	12.5%

The amortisation rates for "intangible assets" (including Development and Exploration Expenditure) are as follows:

Items	Useful Life	Straight line Depreciation Rate
Intangible assets	1 – 4 years	5%
Intangible assets	5 – 8 years	10%
Intangible assets	9 – 16 years	25%
Intangible assets	16 – 20 years	12.5%

Where an interest in a Petroleum Agreement is transferred the transferee must continue to amortise any Exploration or Development Expenditure on the same basis as the original Contractor and the provisions of the TDA apply to all other depreciable or intangible assets.

There are specialised provisions for "small field depreciation" (where an approved Development Plan estimates 80% or more of the reserves will be developed within five years of the commencement of "commercial production").

d) Value of Petroleum

Petroleum is valued "free on board" (f.o.b) at the Field Export Point (the point at which the Petroleum leaves the Contract Area or such an earlier point where it is loaded onto any form of transportation or pipeline).

Crude oil is essentially valued at the f.o.b price paid under an arm's length transaction at the Field Export Point.

The value of Natural Gas is the price paid under an Approved Contract or as provided for under a Development Plan or Petroleum Agreement.

e) Instalments of Income Tax

Contractors are subject to monthly instalments calculated at 1/12th of the Contractor's Income Tax liability of the preceding tax year (subject to various adjustments). Any "excess" payments are credited against subsequent instalments. If the total amount of instalments paid exceeds the Contractor's Income Tax liability for the year the excess is not refunded but is credited against the Contractor's instalments of tax due for the next tax year.

The instalments of Income Tax should be paid by the 15th day of the following month.

f) Supplemental Petroleum Tax

SPT is applied where a Contractor has a positive amount of accumulated net receipts for the Petroleum Operations for a tax year.

SPT is applied in addition to the Income Tax imposed on the Contractor for the year. However, SPT paid by a Contractor is deductible in the calculation of taxable income of the Contractor in the year in which the SPT is paid.

The SPT is calculated according to the following formula:
ANR x 22.5% / (1-r)
where:

ANR	is the "accumulated net receipts" of the Contractor for the Petroleum Operations for the year (see below); and
r	is the rate of corporate Income Tax (30% currently).

The ANR of a Contractor for Petroleum Operations for a tax year is calculated according to the following formula:
((A x 116.5%) – (I x (1-r))) + B
where:

A	is the Contractor's accumulated net receipts for the Petroleum Operations at the end of the previous tax year (entered as a negative to denote a loss) and is deemed to be nil if APT was payable in the previous year of tax;
B	is the Contractor's "net receipts" for the Petroleum Operations for the current tax year; "Net receipts" of a Contractor for a tax year is the "gross receipts" of the Contractor for the year less the total deductible expenditure of the Contractor for the Petroleum Operations for that year (this may be negative). The definition of "gross receipts" of a Contractor is extremely broad and includes (amongst other items) the gross income accrued for Income Tax purposes as well as other amounts and forms of consideration but specifically excludes interest income and amounts received or accrued in consideration for the transfer of an interest in the Petroleum Operations.
l	is the interest expense and other financial charges paid by the Contractor in respect of the Petroleum Operations in the current tax year and is entered in the formula as a negative number; and
r	is the rate of corporate Income Tax (currently 30%).

It is understood that in practice the NDPMR administers this process on the basis that, in the ANR formula, if component (A x 116.5%) is negative for a tax year then that component cannot be offset by (I x (1-r)) such that the result of ((A x 116.5%) - (I x (1-r))), in absolute terms, is less than A.

The computation of SPT can be complicated when a Contractor moves from a taxable loss to a taxable income position.

The due date for the SPT payment and SPT return submission is the same as annual Income Tax.

As with Income Tax, Contractors are required to remit instalments of SPT. The instalment is calculated at 1/12th of the Contractor's estimated SPT to be due for the tax year. The instalments of SPT Tax should be paid by the 15th day of the following month.

g) Transfers of Interests in Petroleum Operations

Where an interest in Petroleum Operations is transferred to another Contractor the transferee is treated as having the same gross receipts and deductible expenditures in respect of the interest as the transferor had immediately before the transfer. For the purposes of calculating the transferee's accumulated net receipts the transferee inherits the transferor's accumulated net receipts at the end of the previous tax year.

Where part of an interest is transferred the gross receipts, deductible expenditure and accumulated net receipts are proportionally allocated.

h) Transfer Pricing

The implementing regulation to Chapter IX (being Regulation TDA-IX/2012) introduced detailed "transfer pricing" provisions to help ensure that the pricing of related party transactions follows arm's length principles.

Regulation TDA-IX/2012 requires that documentation be prepared to support the arm's length nature the pricing and this documentation may be requested during a tax audit.

Related party transactions of US$500,000 or above are required to be reported in the annual Income Tax return.

Though not required to filed with the annual Income Tax return the documentation must be in existence at the time of filing, be maintained for seven years and, in the event of a Tax Audit, be submitted within 60 days of a request.

Transfer pricing documentation should include:

i) a business overview;
ii) a description of the Contractor's organisational structure;
iii) a description of the pricing method selected (along with an explanation as to why that method was chosen);

iv) a narrative of the alternative methods that were considered and the reasons why the alternative methods were not used;
v) a description of the controlled transactions and any internal data used to analyse the transactions;
vi) a description of the comparable data used; and
vii) an explanation of the economic/functional analysis and projections relied upon for the method selected.

Regulation TDA-IX/2012 accepts the following pricing methods:
i) Comparable Uncontrolled Price Method;
ii) Resale Price Method;
iii) Cost Plus Method;
iv) Comparable Profit Method;
v) Comparable Profit Split Method;
vi) Residual Profit Split Method;
vii) other methods.

3. Withholding Tax

Payments by all Timor-Leste residents and PEs for "services" required for Petroleum Operations (other than as an employee) are subject to 6% WHT (final) on the gross amount. This was as set out under Chapter IX of the TDA. Other payments are subject to WHT as set out in Part C.

From 2012 however, Regulation TDA-IX/2012 appears to have impacted some of the WHT outcomes from 1 January 2011 including an increase in some WHT rates to 15%. These provisions are however not entirely clear and specific advice should be sought.

4. Indirect taxes

a) Services Tax

Other than in the JPDA (see Sub-Part 3), Services Tax is applied on "designated services" (being hotel, restaurant, bar and telecommunications services) to a Contractor in relation to Petroleum Operations at a rate of 12%.

b) Sales Tax

Other than in the JPDA (see Sub-Part 3), Sales Tax at a rate of 6% applies on the import of goods by a Contractor in relation to Petroleum Operations.

c) Value Added Tax

VAT does not apply to Petroleum Operations in Timor-Leste's sovereign territory (however see Sub-Parts 3 and 4 for modifications in relation to the JPDA).

d) Import Duty

Under Chapter IX, other than in the JPDA, Import Duty at a rate of 6% is payable on the import of goods by a Contractor in relation to Petroleum Operations. Subcontractors will generally be subject to the general Import Duty provisions (see Part C for details).

SUB-PART 3 – JPDA PSCS (NON-ANNEX F)

IMPORTANT: SCOPE OF SUB-PART 3
This Sub-Part deals with tax arrangements for oil and gas activities connected with the JPDA (other than Annex F PSCs). These tax arrangements are largely as outlined in Sub-Part 2 of this publication but as modified by the Indonesian tax laws of 25 October 1999 and the Timor Sea Treaty. This Sub-Part only considers Timor-Leste's taxing rights (i.e. on Timor-Leste's 90% share of income) and so does not consider the Australian taxation implications for activities connected with the JPDA.

1. Income Tax

a) General/Transitional

As outlined in the earlier Overview section of this publication, Timor-Leste originally adopted the Indonesian Tax laws in place as at 25 October 1999. These laws were then progressively modified by UNTAET Regulation 2000/18, the Petroleum Tax Act (see below) and (most recently) the TDA (see Sub-Part 2 of this publication).

Regulation 2000/18 however had no application to activities carried out in the JPDA (at least in regard to Income Tax). This position was followed by the Petroleum Tax Act. Instead, Timor-Leste's tax rules applying in the JPDA continued to be sourced entirely out of the Indonesian tax rules as at 25 October 1999 (which extends to Indonesia's "uniformity principle" - see below) until modified by Chapter IX of the TDA. The tax regime covered in this Sub-Part is therefore potentially quite complex.

b) Taxation of Oil and Gas

Income Tax levied on PSC contractors in Indonesia was traditionally determined according to the "uniformity principle" (i.e. the principle that cost recoverable and tax deductible expenditure should be identical). The Indonesian experience is that, cost recovery has been limited to exploration, development and production related spending as formally approved for cost recovery purposes by the relevant Government Agency (now SKK Migas but formerly Pertamina). The adoption of the "uniformity principle" also meant that upstream activities, even in Indonesia, were not actually subject to Income Tax as technically outlined pursuant to the Income Tax laws in place at 25 October 1999.

A historical perspective on Indonesia's uniformity principle is worth noting. From the early 1960s contractors in Indonesia were entitled to take their share of production on a "net of tax" basis. In the late 1970s this was changed to a "gross of tax" basis to accommodate US foreign tax credit rules. This change led to a calculation of taxable income being necessary and an actual payment of Income Tax by the contractors.

However, the change from a "net of tax" to a "gross of tax" sharing basis was not meant to disturb the desired after-tax take. It therefore became necessary to adopt the "uniformity principle" in relation to the calculation of taxable income so that the treatment of income and expenditure items for cost recovery and tax deductibility purposes became identical.

Uniformity therefore meant that tax deductibility followed the rules of cost recovery as set out in the relevant PSC rather than the rules set out in the actual Indonesian Income Tax Law. Uniformity also meant that the Income Tax rate was set for the life of the PSC and so continued to apply irrespective of any changes in that rate under the general tax law.

From 1 January 2005 until the introduction of the TDA the Petroleum Taxation Act applied to Petroleum Operations carried out in the JPDA. The PTA however preserved the linkage to Indonesia's 25 October 1999 tax laws for both Income Tax and VAT.

c) Current Tax Rules (Timor-Leste 90% share)

From 1 January 2008 (for annual taxes) and 1 July 2008 (for all other taxes) the TDA "consolidates" the taxation regime applicable to Timor-Leste including for Petroleum Operations in the JPDA (but excluding Annex F PSCs – see Sub-Part 4).

However, there are a number of important modifications made to the TDA's application in the JPDA. In effect, whilst the TDA does apply to the JPDA the following taxes appear to be excluded from application in the JPDA:

i) Services Tax
ii) Excise Tax
iii) Sales Tax
iv) Import Duty; and
v) Wage Income Tax.

Income Tax does continue to apply in the JPDA. However the Income Tax regime for upstream activities appears to consist of the arrangements set out in Chapter IX (as covered in Sub-Part 2 of this publication) but with a possible variation of being based upon Indonesian's 25 October 1999 tax laws (with the uniformity principle, etc) rather than the other Chapters of the TDA.

d) Timor Sea Treaty

A further variation is the JPDA's 90:10 revenue split as set out in the Timor Sea Treaty. As a result, the tax levied in the JPDA is at 90% of the rates set out under the TDA.

The Timor Sea Treaty also includes a tax code (Annex G) for the avoidance of double taxation. Similar to a conventional tax treaty, Annex G contains specific provisions on matters including (but not limited to) residency, business profits, dividends, interest and royalties connected with the JPDA.

2. Value Added Tax

Given the continued JPDA reliance on Indonesia's tax laws as at 25 October 1999, the JPDA continues to allow for a broad-based VAT at the rate of 10% (or 9% after the Timor Sea Treaty reduction). This is notwithstanding that there is no VAT applying in Timor-Leste outside of the JPDA.

The legislative framework in regard to VAT is however unclear. Based upon a TLRS draft discussion paper of 14 October 2001, VAT is generally administered as follows:
i) imports of goods: the Timor Sea Treaty appears to allow Timor-Leste the option to levy VAT;
ii) imports of services: likely to be subject to VAT on a self-assessed basis, at least where dealing with "first tier" contractors (i.e. PSC interest holders or contractors);
iii) second tier contractors/sub contractors: appear to be not required to register for VAT.

Up to date advice on the VAT position should however be sought before executing binding agreements.

3. Withholding Tax

The WHT rates were originally set out in Chapter IX of the TDA but should be read in conjunction with the Timor Sea Treaty 90% reduction factor. In addition, as outlined in Sub-Part 2, TDA-IX/2012 appears to provide a number of WHT modifications from 1 January 2011.

SUB-PART 4 – JPDA PSCS (ANNEX F)

> IMPORTANT: SCOPE OF SUB-PART 4
> This Sub-Part deals with the tax arrangements for oil and gas activities connected with Annex F PSCs. These arrangements are entirely linked to the 25 October 1999 Indonesian tax laws and any subsequent enabling legislation. The TDA and Regulation 2000/18 should have no application.

1. Income Tax

Prior to the signing of the Timor Sea Treaty on 20 May 2002, PSCs had been granted over two significant hydrocarbon discoveries in the JPDA. Annex F of the Timor Sea Treaty provides that, for these existing contracts (known as the Annex F PSCs), interest holders would be offered JPDA PSCs on essentially the same terms that existed prior to the Timor Sea Treaty. This stability extended to the fiscal regime applicable to the PSCs.

The Annex F PSCs constitute:

i) PSCs 03-12 and 03-13 (including the Elang/Elang Kakatua/Kakatua North (EKKN) fields) which have been unitised and are currently operated by a ConocoPhillips entity (Bayu-Undan); and

ii) PSCs 03-19 and 03-20 which have been unitised and are currently operated by a Woodside entity (Greater Sunrise). The Greater Sunrise field unitisation is itself complicated in that the field straddles the JPDA (approximately 20.1%) and waters that are claimed exclusively by Timor-Leste and Australia.

a) General

The foundation tax laws for the Annex F PSCs are those adopted into Timor-Leste under UNTAET regulation 1999/1 (i.e. the Indonesian tax laws as at 25 October 1999).

UNTAET Regulation 1999/1 provided that these Indonesian laws were to continue to apply in Timor-Leste until being replaced by UNTAET regulation or Timor-Leste law. With regard to Income Tax the subsequent introduction of UNTAET 2000/18, the Petroleum Tax Act and the TDA specifically excluded their application to Annex F PSCs (and so also prevented the introduction of Timor-Leste's own taxes such as the Services, Excise, Sales and Import Taxes).

Accordingly, whilst both Bayu-Undan and Greater Sunrise each have distinct unitisation and taxation overlays (discussed below) the 25 October 1999 tax laws (including potentially the "uniformity principle" – see Sub-Part 3) remain relevant to activities in these areas.

b) Summary of Annex F Regimes

The applicable regime for each Annex F PSC is as follows:

	Timor Sea Treaty (for Timor-Leste's 90% share)
Bayu-Undan (excluding EKKN)	i) Indonesian Tax Laws at 25 October 1999; ii) ToBUCA
Greater Sunrise	i) Indonesian Tax Laws at 25 October 1999 ii) Sunrise IUA iii) Certain Maritime Agreements Treaty
EKKN	i) Indonesian Tax Laws at 25 October 1999

For a geographical representation of these areas please see Appendix D. For a comparative table of each area, please see Appendix B.

c) Income Tax Overview

The Law on Income Tax (i.e. Indonesian tax law as at 25 October 1999) provides for:

i) a top corporate tax rate of 30% as applied to taxable income (although certain income is "final taxed" on a withholding (WHT) basis - see below);
ii) taxable income calculated according to normal accounting principles as modified by certain tax adjustments (noting in particular the potential operation of the "uniformity principle" as outlined in Sub-Part 3);
iii) internationally familiar concepts of residency and source;
iv) an extensive collection of cross-border and domestic WHTs; and
v) an introduction of a Transfer Pricing regime.

d) Scope of Taxation

The Law on Income Tax seeks to tax business profits and "designated passive" income. Business profits can include capital gains. Passive income includes interest, as well as royalty, rental and dividend income (although see comments on WHT below). Employment related income is also subject to Income Tax (i.e. not the separate Wage Income Tax).

Various taxpayer "entities" are recognised including companies, partnerships and individuals. There is an internationally recognisable and extensive PE definition. There are also "force of attraction" principles requiring the aggregation of PE and non-PE activities.

e) Residency and Source

For non-individuals, a Timor-Leste resident includes a "body established or domiciled in Timor-Leste". A body includes a limited company, a limited partnership, a state owned enterprise and "other forms of business".

For individuals, a resident includes a person "residing in Timor-Leste or being present in Timor-Leste, for more than 182 days in a calendar year". Timor-Leste residents are taxable on world-wide income/profits while non-residents are taxable on Timor-Leste sourced income/profits only. Residents earning foreign sourced profits and income can receive credits for foreign taxes suffered.

f) Rates of Tax

The standard income tax rates for resident companies and individuals are as follows:

	Annual Taxable Income US$	Rate	Tax US$
on the first	3,368	10%	337
on the next	3,368	15%	505
over	6,737	30%	-

A significant number of business activities will be subject to a "final" tax withheld by the payer (see Withholding Taxes below).

g) Business Profits

Taxable business profits are generally computed on an accruals basis. Under the accruals basis income is generally assessable when "receivable" while expenses are generally deductible when "payable".

h) Calculation of Taxable Income

Taxable income is essentially the difference between total revenue attributable to the PE and "allowable expenses" paid or incurred to carry on the business. Certain income and expenditure of the PE's head office can also be forcibly attracted to the PE.

Income is defined widely to mean "any increase in economic capacity received or accrued". Specifically it includes:

i) profits from business;
ii) gains from the sale or transfer of property;
iii) refunds of deductible tax payments;
iv) interest, premiums, discounts and compensation from loan repayments guarantees;
v) dividends;
vi) royalties;
vii) rent;
viii) gains from the cancellation of indebtedness;
ix) gains from the fluctuation in foreign currencies;
x) gains from the revaluation of property; and
xi) insurance premiums.

i) Allowable Deductions/Uniformity Principle

For a PSC Contractor, the following comments on deductibility are subject to any special rules relevant to the calculation of Income Tax due on liftings. As was outlined in Sub-Part 3 Indonesia had adopted the "uniformity principle" in respect of tax due on liftings earned under an Indonesian PSC. The uniformity principle itself is not however well set out in Indonesia law. The extent therefore to which the "uniformity principle" may have been incorporated into the Law on Income Tax as adopted by Timor-Leste on 25 October 1999 is not clear.

"Uniformity principle" issues aside, Timor-Leste's tax rules contain a general deductibility provision under which all expenditure first falls for consideration as a deduction. Any expenditure satisfying the general criteria will be fully deductible in that year unless specific provisions apply. Such expenditure specially includes:

i) losses suffered on the sale of property;
ii) losses arising from fluctuations in foreign exchange; and
iii) expenditure on tangible property with a useful life of more than 1 year – depreciable at designated rates as follows:

Items (useful life)	Depreciation rate	
	Straight line	Dim. Value
Buildings – permanent	5%	N/A
Buildings – non-permanent	10%	N/A
Property (4 years)	25%	50%
Property (5-8 years)	12.5%	25%
Property (9-16 years)	6.25%	12.5%
Property (17 years +)	5%	10%

iv) expenditure on intangible property (including pre-commencement costs) with a useful life of more than 1 year-amortizable at designated rates as follows:

Items (useful life)	Straight line depreciation rate
Property (4 years)	25%
Property (5-8 years)	12.5%
Property (9-16 years)	6.25%
Property (17 years +)	5%

j) Non-Allowable or Conditional Deductions

These include:

i) private expenses;
ii) non-business gifts and aid;
iii) general provisions/reserves;
iv) Income Tax payments;
v) penalties, fines etc.; and
vi) expenses relating to income taxed on a "final-taxed" basis (see Withholding Taxes section below).

k) Losses

Taxpayers may carry forward their losses for five years. The carry-back of losses is not permitted. There is no provision for any form of consolidated filing or group loss relief.

l) Transfer Pricing

The Law on Income Tax provides wide powers for the Timor-Leste authorities to redistribute income and deductions between parties under "a special relationship". A Special Relationship will exist at a relatively low 25% common ownership level.

2. Withholding Tax

a) Payments/Rates

The following WHT rates apply on the designated payments. The rates mentioned below are before the reduction factor of 10% under the Timor Sea Treaty (i.e. Timor-Leste's is only entitled to tax 90%):

Article 21 WHT (payment from a resident (including a PE), to a resident)

Type	Rate* (Max.)	Final Tax (Y/N)
On salaries/wages	30%	N
Severance payments	15%	N
Pension payments	30%	N
Fees paid to independent, individual professionals	6%	N

* before JPDA reduction factor of 10%

Article 23 Withholding Taxes (payment by resident to resident, or PE to PE)

Type	On gross amount/ Est. Net Income (ENI)	ENI %	WHT rate	Actual WHT rate* (% of Gross amount)	WHT rate with 10% reduction applied	Final Tax (Y/N)
Interest	Gross	-	15%	-	13.50%	N
Royalties	Gross	-	15%	-	13.50%	N
Drilling and support services in mining	ENI	30%	15%	4.50%	4.05%	N
Prizes and awards	Gross	-	15%	15%	13.50%	N
Rent (other than land and building)	ENI	40%	15%	6%	5.40%	N
Technical and management services	ENI	40%	15%	6%	5.40%	N
Architecture, interior, and landscape design	ENI	40%	15%	6%	5.40%	N

Type	On gross amount/ Est. Net Income (ENI)	ENI %	WHT rate	Actual WHT rate* (% of Gross amount)	WHT rate with 10% reduction applied	Final Tax (Y/N)
Accounting and bookkeeping	ENI	40%	15%	6%	5.40%	N
Timber cutting	ENI	40%	15%	6%	5.40%	N
Pest control and cleaning services	ENI	10%	15%	1.50%	1.35%	N
Intermediary	ENI	60%	15%	9%	8.10%	N
Appraisal	ENI	40%	15%	6%	5.60%	N
Actuary	ENI	40%	15%	6%	5.40%	N
Film dubbing/ mixing	ENI	40%	15%	6%	5.40%	N
Other services	ENI	10%	15%	1.50%	1.35%	N

* before JPDA reduction factors of 10%. May be an additional tax on branch profits if earned by a PE.
Note: WHT = withholding tax

Article 26 Withholding Taxes (payments by resident – (incl. PE), to non-resident)

Type	On gross amount/ Est. Net Income (ENI)	ENI %	WHT rate	Actual WHT rate* (% of Gross amount)	WHT rate with 10% reduction applied	Final Tax (Y/N)
Dividends	Gross		20%	20%	18%	Y
Interest, including premiums, discounts, and guarantee fees	Gross		20%	20%	18%	Y
Royalties	Gross		20%	20%	18%	Y
Rental and payments for the use of assets	Gross		20%	20%	18%	Y
Fees for services, work, and activities	Gross		20%	20%	18%	Y

Type	On gross amount/ Est. Net Income (ENI)	ENI %	WHT rate	Actual WHT rate* (% of Gross amount)	WHT rate with 10% reduction applied	Final Tax (Y/N)
Prizes and awards	Gross		20%	20%	18%	Y
Pensions and any other periodical payments	Gross		20%	20%	18%	Y
National annual distributions of after-tax profits of a branch (or so-called PE)	Gross		20%	20%	18%	Y
Insurance premium paid by:						
• by the insured	ENI	50%	20%	10%	9%	Y
• by Indonesian insurance companies	ENI	10%	20%	2%	2%	Y
• by Indonesian reinsurance companies	ENI	5%	20%	1%	1%	Y

* before JPDA reduction factors of 10%.

Specifically regulated payments of income

Type	On gross amount/ Est. Net Income (ENI)	Rate*	WHT rate with 10% reduction applied	Final Tax (Y/N)
Payment from resident to resident: Rentals of land and buildings:				
• if the lessor (i.e. the owner) is a corporate taxpayer	Gross	6%	5.4%	Y
• if the lessor (i.e. the owner) is an individual taxpayer	Gross	10%	9%	Y

Type	On gross amount/ Est. Net Income (ENI)	Rate*	WHT rate with 10% reduction applied	Final Tax (Y/N)
• if the lessor is a corporate taxpayer but the owner is an individual taxpayer	Gross	10%	9%	Y
Fees for construction and consulting services:				
• construction contracting	Gross	2%	1.8%	Y
• construction planning	Gross	4%	3.6%	Y
• construction supervision	Gross	4%	3.6%	Y
• consulting services (other than tax and legal)	Gross	4%	3.6%	Y
Payment of interest from banks	Gross	15%	13.5%	Y
Payment to resident shipping/airlines companies	Gross	1.2%	1.08%	Y
Payment to non-resident shipping/ airlines companies (with PE)	Gross	2.64%	2.376%	Y

* May be an additional tax on branch profits if earned by a PE.

3. Value Added Tax

As previously mentioned, Indonesia's tax laws as at 25 October 1999 included a broad-based VAT levied at the rate of 10%. This VAT continues to apply in areas covered by Annex F PSCs (see Sub-Part 3 for details).

4. Bayu-Undan (excluding EKKN)

a) Taxation of Bayu-Undan Contractors Act

In June 2003, Timor-Leste passed the ToBUCA. ToBUCA was introduced to provide specific tax related concessions and obligations (relevant to the Indonesian Income Tax Law as at 25 October 1999) considered necessary to help ensure the early development of the Bayu-Undan LNG project. The underlying intention was to encourage the Bayu-Undan contractors to proceed with the gas phase of the project. These changes were effective from 1 January 2002.

ToBUCA specifically excludes the EKKN fields which remain subject to the Law on Income Tax as outlined above.

b) Impact of ToBUCA

Summarised below is an outline of the ToBUCA modification. ToBUCA applies to Contractors and Subcontractors supplying goods or services in respect of JPDA PSC 03-12 (previously 91-12) (excluding the Elang Kakatua Kakatua North area) and JPDA PSC 03-13 (previously 91-13).

ToBUCA changes to the Law on Income Tax	Description of Change
Taxes Covered	Income Tax (including associated withholdings), VAT, Sales Tax.
Activities Covered	Petroleum activities in relation Bayu Undan (other than EKKN).

ToBUCA changes to the Law on Income Tax	Description of Change
Activities Exempted	Income and activities connected to the Bayu- Undan export pipeline.
Branch Profits Tax	General elimination of tax on branch profit remittances for “first tier” Contractors (i.e. PSC entities) and Sub-contractors.
Withholding Taxes	General reduction in WHT rates on a wide range of service charges (see below for further detail).
Additional Profit Tax	Introduction of an Additional Profit Tax (APT) on significant oil and gas profits. APT is calculated in the same manner and method as SPT (see Sub-Part 2 for details).
Decommissioning Costs Reserve	Introduction of an entitlement to progressively accrue qualifying decommissioning costs. Accrual is tax deductible.
Depreciation/Amortisation	Acceleration of tax depreciation and amortization rates for Bayu-Undan assets.

c) ToBUCA Withholding Tax Rates

The rates arising from ToBUCA are as follows:

	Pre-ToBUCA		Post-ToBUCA		
Type of activity	Actual WHT on gross amount	10% reduction applied	Post ToBUCA rate (reduction not applied)	10% Reduction applied	Final Tax (Y/N)
Drilling Services (by a PE)*	4.5%	4.05%	1.8%	1.62%	Y
Drilling Support	4.5%	4.05%	1.8%	1.62%	N
Construction Services	2.0%	1.8%	0.8%	0.72%	Y
Construction Consulting Services	4.0%	3.6%	1.6%	1.44%	Y
Royalties – to residents (or PE)	15.0%	13.5%	6.0%	5.4%	N
Royalties – to non residents	20.0%	18.0%	8.0%	7.2%	Y
Shipping and Air Charter Service (by a PE)	2.64%	2.376%	0.72%	0.648%	Y
Payments for (most) services to residents (or PE)	6.0%	5.4%	2.4%	2.16%	N
Payments for services to non-residents	20.0%	18.0%	8.0%	7.2%	Y

5. Greater Sunrise Field

The Sunrise and Troubadour fields (collectively known as Greater Sunrise) are estimated to contain some 8 trillion cubic feet of gas and 300 million barrels of condensate. Greater Sunrise straddles waters falling within the JPDA (approximately 20.1 %) and waters that are claimed exclusively by both Australia and Timor-Leste.

In respect of the disputed areas, the Timor Sea Treaty (Annex E) and the Sunrise International Unitisation Agreement (IUA) acknowledged that production from the Greater Sunrise fields would be distributed on the basis that 20.1% would be attributable to the JPDA and 79.9% would be attributed to Australia. Effectively, this gives Timor-Leste the right to tax 90% of the portion of the Greater Sunrise area which lies in the JPDA (i.e. 90% × 20.1% = 18.09%). Australia's taxable portion is therefore 79.9% plus its entitlement to 10% of the area which lies in the JPDA (10% of 20.1% = 2.01%).

Annex E to the Timor Sea Treaty also provided for the renegotiation of the unitisation for the hydrocarbon reserves contained in Greater Sunrise. On 12 January 2006, Timor-Leste and Australia signed the Certain Maritime Agreements in the Timor Sea (CMATS) Treaty.

CMATS came into force on 23 February 2007 and extends for a period of 50 years or the earlier of certain events including the cessation of petroleum exploitation. It provides for a moratorium on claims by either party in relation to their sovereign rights, or fiscal jurisdiction, and over the maritime boundary for the period of the agreement.

The key feature of CMATS is that Timor-Leste and Australia agree to share equally in the revenue derived directly from the production of petroleum in Greater Sunrise insofar as it relates to the upstream exploitation of that petroleum.

The value of such petroleum is to be determined on the basis of arm's length principles. It is important to note that the mechanism for sharing revenue equally between the two nations does not disturb the calculation of tax under the Timor Sea Treaty and Sunrise IUA (i.e. the 79.9% Australia / 20.1% JPDA calculation above).

Either Timor-Leste or Australia could terminate CMATS if a development plan for the Greater Sunrise field was not approved within six years after its entry into force. This six year period passed on 23 February 2013 without a development plan being approved. CMATS further states that should petroleum production take place in the Greater Sunrise field after the termination of CMATS all the terms of the treaty shall re-enter into force and operate from the date of commencement of production.

Disagreements around the progress and method of development of the Greater Sunrise field resulted in Timor-Leste exercising its right to arbitration under Annex B of the Timor Sea Treaty in April 2013. It is understood that Timor-Leste is arguing that CMATS was now invalid. A ruling had not been issued at the time of writing.

Regulations/Documents of Relevance

Indonesian Tax Law (as at 25 October 1999)

- Law No.9/1994 (as an amendment of Law No. 6/1983) – General Tax Provisions and Procedures
- Law No. 10/1994 (as an amendment of Law No. 7/1983) – Income Tax
- Law No. 11/1994 (as the Amendment of Law No. 8/1983) – Value Added Tax

UNTAET Regulations

- UNTAET Regulation 1999/1
- UNTAET Regulation 2000/12
- UNTAET Regulation 2000/18 of July 2002 (as amended)

Timor-Leste Sovereign Law

- Constitution of the Democratic Republic of Timor-Leste dated 20 May 2002
- Decree Law No. 3/2003 and Regulation No. 19/2013 – Taxation of Bayu-Undan Contractors Act
- Law No. 4/2003 – Petroleum Development of Timor Sea Tax Stability Act
- Law No. 4/2004 – Law on Commercial Companies
- Decree Law No. 10/2004 – Customs Tax Offences
- Law No. 4/2005 (repealed by Private Investment Law No. 14/2011) – Law on Domestic Investment
- Law No. 5/2005 (repealed by Private Investment Law No. 14/2011) – Law on External Investment
- Decree Law No. 7/2005 – Public Tendering in Respect of Petroleum Contracts Awards
- Law No. 8/2005 (repealed by Taxes and Duties Act No. 8/2008) – Petroleum Taxation Act
- Law No. 9/2005 (as revised by Law No. 12/2011) – Petroleum Act
- JPDA Petroleum Mining Code (equivalent to Law No. 9/2005) and JPDA Model Production Sharing Contract (August 2005)
- Law No. 13/2005 – Petroleum Activities Law
- Decree Law No. 7/2006 – Code of Business Registration

- Decree Law No. 8/2008 – Taxes and Duties Act
- Decree Law No. 20/2008; Decree Law No. 1/2012; ANP Regulation No. 1/2012; and Regulation No. 2/2012 – National Petroleum Authority, Downstream Licensing and Downstream Inspection Activities
- Decree Law No. 5/2011 – Environmental Licensing Decree
- Law No. 10/2011 – Civil Code
- Law No. 14/2011 – Private Investment Law
- TDA-IX/2012
- Decree Law No. 31/2011 – Timor GAP, E.P.
- Law No. 4/2012 – Labour Code
- Decree Law No. 42/2012 – Public-Private Partnership Framework
- Decision of the Secretary of State for Professional Training and Employment Policy (SEPFOPE) No. 232/SEPFOPE-GSE/D/X/2013 on the employment of foreign employees

Tax Treaties

- Annex G of The Timor Sea Treaty between Australia and Timor-Leste
- The Portugal Timor-Leste Double Tax Agreement of 2011 as ratified by Portugal on 9 August 2012 (but yet to be ratified by Timor-Leste).

International Agreements

- Timor Sea Treaty between Australia and Timor-Leste signed on 20 May 2002
- Sunrise International Unitisation Agreement between Australia and Timor-Leste signed on 6 March 2003
- Certain Maritime Agreements in the Timor Sea Treaty between Australia and Timor-Leste signed on 12 January 2006

International Memberships

- Timor-Leste belongs to the Community of Portuguese Language Countries (CPLP)
- Timor-Leste has applied for ASEAN membership (March 2011)
- Timor-Leste has expressed an interest in becoming part of the Commonwealth of Nations.

Rulings

- TLRS Public Ruling 2001/01 – The Public and Private Rulings Programs
- TLRS Public Ruling 2001/02 – National Director's Powers
- TLRS Public Ruling 2001/03 – When is there Employment in East Timor
- TLRS Public Ruling 2001/04 – Services Tax and Vehicles
- TLRS Public Ruling 2001/05 – Meaning of Wages
- TLRS Public Ruling 2001/06 – Construction
- TLRS Public Ruling 2001/07 – Depreciation
- TLRS Public Ruling 2001/08 – Useful Life of Depreciable Assets
- TLRS Public Ruling 2001/09 – Apportioning Expenses
- TLRS Public Ruling 2001/10 – Auditing, Access and Information Collection
- TLRS Public Ruling 2001/11 – Residency
- TLRS Public Ruling 2001/12 – Additional Tax
- TLRS Public Ruling 2001/13 – Value of Non-wage Benefits for Employees of Income Tax
- TLRS Public Ruling 2010/81 – Withholding Tax: Section 81 of the Taxes and Duties Act, Decree Law No. 08/2008
- TLRS Public Ruling 2011/02 – Supplemental Petroleum Tax Calculation
- TLRS Public Ruling 2011/11 – Taxation of Capital Gains within the JPDA

Appendix B

Tax Regime Matrix

	Part C	Part D Sub-Part 2	Part D Sub-Part 3
	Non-JPDA – 100% Timor-Lestè		
	Non-PSC	Non-Annex F PSCs	
	Non-Oil and Gas (general tax regime)	Oil and Gas (non-JPDA)	JPDA (non-Annex F)
Foundation Laws:	TDA (excluding Chapter IX).	TDA (Specifically modified by Chapter IX).	TDA (Chapter IX only).
Comments:	The TDA provides the framework for the general taxation regime in Timor-Lestè. However, it does not provide a tax administration, offences, sanctions or collection framework (UNTAET 2000/18 continues in this regard).	The TDA repeals the previous Petroleum Tax Act. UNTAET 2000/18 continues for tax administration.	The TST (including Tax Code -Annex G) applies, meaning tax levied in the JPDA is at 90% of the rates set out under the TDA. Indonesian VAT at 25/10/99 continues to apply. UNTAET 2000/18 continues for tax administration.
Main Features			
Effective taxable Portion	100%	100%	90%
Income tax rate - PSC Contractor	N/A	30%	30%
- Sub-contractor	N/A	10%	N/A (but will generally be subject to WHT)
- Other corporate/PE	10%	10%	Progressive rates
- Individual	0% if < 6k p.a. 10% if >$6k p.a. No income tax on wages subject to WIT.	Different rates for employees of Contractors and non-Contractors	Different rates for employees of Contractors and non-Contractors
Wage Income Tax -Payment to resident -Payment to non-resident	0% if < $6k p.a. 10% if >$6k p.a. 10% (final)	Various rates (0%-30%) 20% (final)	Various rates 18% (final)
Branch profit tax	N/A	N/A	N/A
WHT on Services -payment to resident/PE -payment to non-resident	 Various rates 10% (final)	 12% (final) or 6% (final) 6% (final)	 5.4% (final) 5.4% (final)
Supplemental petroleum tax	N/A	Applicable for Contractor	Applicable for Contractor
VAT	N/A	N/A	10%
Interest deductibility	No longer deductible	Contractor only – equal to interest income + 25% of net non-interest income	Contractor only – equal to interest income + 25% of net non-interest income

NOTES:
1. The TDA consolidates the tax regimes applicable to Timor-Lestè, other than the Law on the Taxation of Buyu-Undan Contractors (Section 4). This includes the taxation of Oil and Gas (Chapter IX) which was previously governed by the Petroleum Tax Act.
2. At present, the TDA preserves the previous tax administration, collection, offences and sanctions as provided under UNTAET 2000/18.

Part D Sub-Part 4		
JPDA – 90% taxed by Timor-Lestè (10% Australia)		
Annex F PSCs		
Bayu Undan PSCs 03-12 and 03-13 (excluding EKKN)	EKKN (PSC 03-12)	Greater Sunrise PSCs 03-19 and 03-20
Indonesian tax laws at 25/10/99, modified by ToBUCA.	Indonesian tax laws at 25/10/99.	Indonesian tax laws at 25/10/99 as modified by the Sunrise IUA.
Special regime to enable the gas re-cycle phase of Bayu Undan. The TST (including Tax Code -Annex G) applies, meaning tax levied in the JPDA is at 90% of the rates under Indonesian tax laws at 25/10/99 as modified by ToBUCA.	Regime covering the early liquids phase of Buyu-Undan PSC 91-12. The TST (including Tax Code -Annex G) applies, meaning tax levied in the JPDA is at 90% of the rates under Indonesian tax laws at 25/10/99.	The Sunrise IUA creates the taxation split 20.1% JPDA / 79.9% Australia. CMATS is a separate government revenue sharing mechanism (50% Australia / 50% Timor-Lestè). The TST (including Tax Code -Annex G) applies, meaning tax levied in the JPDA is at 90% of the rates under Indonesian tax laws at 25/10/99 as modified by the Sunrise IUA.
90%	90%	90% × 20.1% = 18.09%
30% (exemption for export pipeline)	Progressive rates	Progressive rates
Progressive rates	Progressive rates	Progressive rates
Progressive rates	Progressive rates	Progressive rates
Progressive rates	Progressive rates	Progressive rates
Various rates 18% (final)	Various rates 18% (final)	Various rates 18% (final)
N/A	18%	18%
Various (reduced) rates 7.2% (final)	Various rates 18% (final)	Various rates 18% (final)
Applicable for Contractor	N/A	N/A
10%	10%	10%
N/A	N/A	N/A

3. Indonesian Tax Law at 25/10/1999 includes Income Tax, VAT and the General Tax provisions.
4. Australian tax law applies on the remaining 10% of income from the JPDA.
   The Progressive rates for Income Tax purposes are 10% (on the first $3,368), 15% (on the next $3,368) and 30% (on income over $6,737).

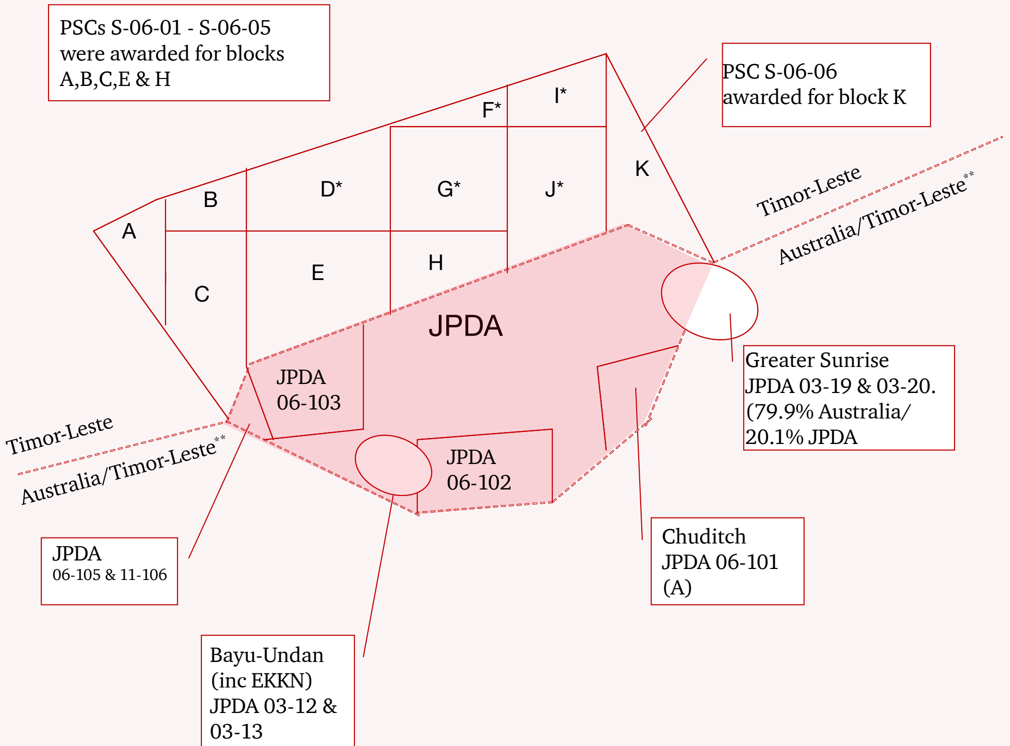
Appendix C

PSC Possible Classifications

PSCs	Current Operator	Status/Project	Tax Regime Matrix	Comments
JPDA 11-106	ENI Group	Exploration	D3	Awarded in April 2013. Reliquished acreage from JPDA 06-105.
S-06-01(Area A) S-06-02 (Area B) S-06-03 (Area C) S-06-04 (Area E) S-06-05 (Area H)	ENI Group ENI Group ENI Group ENI Group ENI Group	Exploration Exploration Exploration Exploration Exploration	D2 D2 D2 D2 D2	Awarded in 2006 as part of Timor-Leste's inaugural offshore bid round for its sovereign territory.
S-06-06 (Area K)	Reliance Industries Limited	Relinquished in 2011	D2	Awarded in 2006 as part of Timor-Lestè's inaugural offshore bid round for its sovereign territory.
JPDA 06-101(A)	Minza Oil and Gas Limited	Discovery	D3	Includes the Chuditch gas field discovered in 1998.
JPDA 06-102	Petronas Group	Reliquished	D3	
JPDA 06-103	Oilex Group	Seeking termination by mutual consent	D3	Located near the producing oil & gas fields at Laminaria, Coralina, EKKN and Bayu-Undan.
JPDA 06-105	ENI Group	Oil Production	D3	Includes the Jahal, Kuda Tasi and Kitan Oil field's first discovered in 1996 (formally JPDA 03-01).
JPDA 03-12	Conoco Phillips Group	LNG Production	D4	Bayu-Undan Project (formally PSC 95-12). This PSC includes the EKKN area.
JPDA 03-13	Conoco Phillips Group	LNG Production	D4	Bayu-Undan Project (formally PSC 95-13).
JPDA 03-19	Woodside Group	Discovery	D4	Greater Sunrise Project (formally PSC 95-19).
JPDA 03-20	Woodside Group	Discovery	D4	Greater Sunrise Project (formally PSC 95-20).

* See Appendix D for a geographical representation of the above PSCs

PSC Map



*Blocks offered during 2006 bid round but not taken.
**Neither country has forgone exclusive claims.

Map is not to scale.

Appendix E

Glossary of Abbreviations

Timor-Leste Definition

ADB	Asian Development Bank
AMP	Alliance with a Parliamentary Majority
Annex F PSCs	PSCs detailed in Annex F of the Timor Sea Treaty
ANP	Autoridade Nacional do Petróleo / National Petroleum Authority
ANR	Accumulated Net receipts
APT	Additional Profit Tax
ASEAN	Association of South East Asian Nations
BCTL	Banco Central de Timor-Leste
CFA	Central Fiscal Authority
CIF	Cost, Insurance and Freight
CMATS	Certain Maritime Arrangements in the Timor Sea Treaty between Australia and Timor-Leste
CPLP	Community of Portuguese Language Countries
EKKN	Elang Kakatua-Kakatua North
ENI	Estimated Net Income
f.o.b	free on board
Fretilin	Frente Revolucionária de Timor-Leste Independente
GATT	General Agreement on Tariffs and Trade
GDP	Gross Domestic Product
Law on Income Tax	Indonesian Tax Laws as at 25 October 1999
IBRD	International Bank for Reconstruction and Development
ICSID	International Centre for Settlement of Investment Disputes
IDA	International Development Association
IFC	International Financial Corporation
IMF	International Monetary Fund
JPDA	Joint Petroleum Development Area as provided for in the Timor Sea Treaty (previously ZOCA)
LNG	Liquefied Natural Gas
MCIA	Ministry of Commerce, Industry and Environment
MIGA	Multilateral Investment Guarantee Agency
MoJ	Ministry of Justice
MoF	Minister of Finance

MPRM	Ministry of Petroleum and Mineral Resources
MTCI	Ministry of Tourism, Commerce and Industry
NDDR	National Directorate of Domestic Revenue
NDPMR	National Directorate of Petroleum and Mineral Revenues
PE	Permanent Establishment
PSC	Production Sharing Contract
PTA	Petroleum Taxation Act
SPT	Supplemental Petroleum Tax
Sunrise IUA	International Unitisation Agreement of the Greater Sunrise Fields Agreement
Tasi Mane	Southern Coast Projects
TDA	Taxes and Duties Act
TGEP	Timor Gas E Petroleo, E.P. / Timor Gas and Petroleum, E.P.
Timor Gap Treaty	Predecessor to the Timor Sea Treaty. An agreement between Australia and Indonesia to jointly share in the exploration of the disputed geographical area known as Zone A (i.e. ZOCA) signed on 11 December 1989 and operative from 9 February 1991 to 20 May 2002.
Timor Sea Treaty	The successor to the Timor Gap Treaty. An agreement between Timor-Leste and Australia entered into and effective from 20 May 2002.
TIN	Tax Identification Number
TLEA	Timor-Leste Exclusive Area
TLRS	Timor-Leste Revenue Service (superseded by NDDR and NDPMR)
ToBUCA	Taxation of Bayu-Undan Contractors Act
TST	Timor Sea Treaty
UN	United Nations
UNTAET	United Nations Transitional Administration in East Timor
VAT	Value Added Tax
WHT	Withholding Tax
WIT	Wage Income Tax
ZOCA	Zone of Cooperation – A, as provided for under the Timor Gap Treaty.

PwC Contacts for Timor-Leste

PwC Contacts

PwC has extensive experience in advising on Timor-Leste as well as international tax matters.

This publication has been prepared for the general information and assistance of those investing in Timor-Leste. It should not be used as a substitute for specific advice on a contemplated transaction.

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