



DILI INSTITUTE OF TECHNOLOGY

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DILI INSTITUTE OF TECHNOLOGY'S THOUGHTS ON THE PROPOSED TAX REFORM LAW 2008

Introduction

Timor Leste as an Independent Nation is responsible to develop all sectors to improve citizens' lives from one generation to the next. This development will depend on the national financial resources, such as tax revenues.

Citizens pay tax to the government as their contribution and participation in national development even though it may be a small amount. It builds a positive feeling from each citizen that everything they get from development as a resource which does not last forever.

In reality, Timor-Leste gets a lot of money from petroleum fund, and it provides the financial resources for national development. However, some people say that increasing petroleum revenues could be a "blessing," it could be also a "curse" for the Timorese people!

General Comments

- Depending on petroleum revenues motivates Government and Parliament to simplify the non-petroleum tax law with the following objectives:
 1. To facilitate investment and create jobs;
 2. To help consumers and non-employees, especially poor people;
 3. To reduce prices for goods and minimize tax evasion;
 4. To maintain a possible system to increase other tax income in the future, if possible.
- DIT thinks that the objective of this Proposed Tax Law is good to stimulate the national and international private sector, which could work together with the public sector to invest in economic development which will be an important and strategic sector to improve other sectors such as social, political, cultural, justice, defense and security.
- Nevertheless, the public administration system, especially the bureaucracy as implementers of this law will proceed with a "centralized" system, and the public servants are oriented to give more importance to "power" than to "service" through their thinking, their communications and their actions. This will be a great obstacle to implementing this Law, which in the future should follow governance principles such as transparency, accountability, responsibility and efficiency.

Comments on some articles

1. Article 10° Selective Consumption Tax on only eight items, including Beer, Wine, Alcohol, tobacco, gasoline and diesel fuel, Gun and bullets, Lighters and Pipes.

DIT thinks that:

- Gun and Bullets cannot be categorized as consumer goods, because this gives people the chance to import them when they can afford to pay the tax.
- Gasoline and diesel fuel need to be considered wisely to reduce its tax, because many people use these in their daily transport activities, and transport is used to move things and people from a place to another, improving economic development from rural to national areas.
- Beer, Wine, Alcohol, tobacco, Lighters and Pipes could have increased tax because those things impact negatively on health and may be counterproductive to the objective of reducing salary tax.

2. Article 20° Tax for Workers Salaries.

DIT thinks that:

- Salary of US\$ 1,000 or less should pay no tax
 - Salary of \$1,000 or more should pay 10%
3. No tax on importing basic needs such as rice, oil, salt, sugar, etc., because those goods are basic needs of people in their daily lives.
 4. Tax for electronics equipment such as Televisions, Radios and Computers should be increased, when they are imported fully assembled. But there could be an exemption to open assembly industries to create jobs for Timorese people.

Recommendations

1. The subsidy from petroleum revenues to allow reduced taxes should be time-limited. DIT proposes to apply it for 5 to 10 years, and then do an evaluation.
2. The investments which will come should be allocated to strategic sectors, as a stimulus for others sectors, with consideration of the relation of investing in one sector to another.
3. Decentralization, debureaucratization, deregulation with rural development as a priority during the period of "blessing" from petroleum revenues should be used to establish the economic system of Timor-Leste in order to guarantee sustainable development.

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