

# DTA

AGREEMENT TO ELIMINATE THE  
DOUBLE TAXATION BETWEEN  
PORTUGAL AND TIMOR-LESTE

VdA EXPERTISE



August 2022

## **The National Parliament of Timor-Leste has recently approved the Agreement to Eliminate Double Taxation of Income and to Prevent Tax Evasion (“DTA”) signed with Portugal in September 27<sup>th</sup> 2011.**

This agreement was signed by both States in September 2011, in Lisbon, approved by the Portuguese Parliament in June 8<sup>th</sup>, and now approved by the Timor-Leste Parliament.

Even though 10 years have passed since its signing, it is expected that this DTA takes a relevant role in the reinforcement of the supporting conditions of investment between companies and individuals of both States.

### **Corporate Income**

The DTA foresees that profit of a company based in one of the Contracting States can only be taxed in such State (exclusive competence of the residency State). This will not vary only when there is a permanent establishment, according to terms hereafter referred.

### **Permanent Establishment (“PE”)**

Like in most DTAs, this DTA foresees the figure of the PE for situations in which a non-resident entity has, in the other State, a fixed installation through which it carries out all or part of its activity.

A PE may be triggered by: (i) a branch or a place of management; (ii) a mine, an oil or gas well or any other place of extraction of natural resources; (iii) a construction site, a construction, installation or assembly project, and related supervision activities, if their duration exceeds 183 days; or (iv) the provision of services, including consulting services, by an enterprise through employees or others.

If a PE is triggered, the DTA foresees the possibility of the State to tax income attributable to such PE.

For onshore and offshore activities, the DTA provides that when they are related to exploration and exploitation of the seabed and subsoil and its natural resources, they are equivalent to the existence of a PE in that State.

### **Dividends**

The DTA foresees a cumulative taxation regime (both States may tax). However, the rates applicable to dividend payments between the two Contracting States may not exceed 5% or 10%, depending on the nature of the beneficial owner.

### **Interest and Royalties**

The ADT also foresees a cumulative taxation regime, applying a maximum rate of 10%, depending on the condition of the respective beneficial owner.

### **Information Exchange**

According to the DTA, there is a possibility of the competent authorities from both States to be exchanging information.

### **Entry into force**

The entry into force of this DTA awaits the observance of some internal procedures in Timor-Leste, in particular publication in the Official Gazette.

# Contacts



**TIAGO MARREIROS MOREIRA**  
TM@VDA.PT



**CATARINA PINTO CORREIA**  
CPC@VDA.PT



**FILIPE DE VASCONCELOS FERNANDES**  
FVF@VDA.PT