



IX CONSTITUTIONAL GOVERNMENT

Law no. ____/2023, of ____ of ____

FIRST AMENDMENT TO LAW NO. 15/2022, OF DECEMBER 21, GENERAL STATE BUDGET FOR 2023, AND LAW NO. 2/2022, OF FEBRUARY 10, FRAMEWORK OF THE GENERAL STATE BUDGET AND PUBLIC FINANCIAL MANAGEMENT, AND SECOND AMENDMENT TO LAW NO. 8/2008, OF JUNE 30, TAX LAW.

Explanatory Memorandum

Pursuant to Article 95.2(p) and (q), Article 97.1(c) and Article 145.1 of the Constitution of the Democratic Republic of Timor-Leste, the Government proposes to the National Parliament the draft law to approve the first amendment to Law 15/2022, of 21 December, General State Budget for 2023, as well as the first amendment to Law 2/2022, of February 10, Framework of the General State Budget and public financial management, and the second amendment to Law No. 8/2008, of June 30, Tax Law, as amended by Law 5/2019, of August 27.

Following the parliamentary election of 21 May 21 2023 and the inauguration of the IX Constitutional Government, Decree-Law 46/2023, of July 28, approved the new organic structure of the Government, so it is necessary to make some adjustments to the titles of the organic classification of the General State Budget.

This includes the creation of the Ministry of Tourism and Environment (with the Ministry of Trade and Industry losing its attributions in the area of tourism), the Ministry of Rural Development and Community Housing, the Ministry of Youth, Sport, Art and Culture and the Ministry of Planning and Strategic Investment (which replaces the Ministry of Planning and Zoning). In addition, the National Agency for Planning, Monitoring and Evaluation (ANAPMA), the National Authority for Water and Sanitation (ANAS, I.P.) and the National Authority for Electricity (ANE, I.P.) were abolished.

Considering the budget execution data to date and the Government's intention to achieve greater restraint in public accounts, for greater efficiency in the use of public money and greater effectiveness of public investment, a comprehensive assessment exercise was carried out which resulted in the identification of savings in several services and entities of the Public Administrative Sector and which justify a reduction in the expenditure foreseen in the General State Budget for 2023, as well as in the amount of the transfer from the Petroleum Fund.

As proposed in its program, the IX Constitutional Government intends to alleviate the impact of inflation and the increase in the cost of living on citizens, increasing their purchasing power.

To this end, an adjustment is made to the rates of excise duty and customs duties on imports applicable in 2023, which had been increased at the beginning of the year, through Law 15/2022, of December 21, General State Budget for 2023.

Thus, the excise duty rate on sugar is eliminated, as well as the increase in customs duties on imports, returning to the previous rate of 2.5%.

It also takes the opportunity to make changes to two laws closely linked to the General State Budget, Law 2/2022, of February 10, Framework of the General State Budget and public financial management, and Law 8/2008, of June 30, Tax Law, as amended by Law 5/2019, of August 27.

Thus, the first amendment to Law 2/2022, of February 10, Framework of the General State Budget and public financial management, is made to ensure greater rigor and transparency in the execution of the General State Budget and public accounts.

This amendment includes changes to the budget amendments, to ensure greater stability to the approved General State Budget, the elimination of the Major Planning Options law, creating in its place the Annual Strategic Investment Plan, a technical document that presents the annual planning with an impact on the budget and which is presented together with the draft law of the General State Budget, and adjustments to the budget execution regime in the period between the appointment of the Government and the appraisal of the Government program, as well as in the period between the rejection of the Government program and the appointment of a new Government. In addition, some drafting improvements are made to the diploma, in particular to adjust the text to the decision of the Court of Appeal in Judgment 03/CONST/2022/TR.

On the other hand, the second amendment to Law 8/2008, of June 30, Tax Law, amended by Law 5/2019, of August 27, is made to clarify the concept of permanent establishment provided for in the Tax Law, and thus remove doubts about the tax regime applicable to these situations, providing greater legal certainty and fiscal stability to foreign investment in Timor-Leste.

The draft law presents some changes in the structure of the tables of the General State Budget, in order to increase the transparency and understanding of the information presented, namely regarding the revenues and expenses of each subsector.

Thus, tables I and II of the General State Budget now clearly present which revenues and expenditures are financed by the Central Administration, including transfers from the Central Administration to the Social Security Budget and the Budget of the Special Administrative Region of Oe-Cusse Ambeno, and those that are financed by own revenues of these subsectors, and therefore do not burden the Central Administration or the Petroleum Fund. The Total is now presented with and without the revenue and expenditure of the Social Security Reserve Fund (FRSS) to make clear the actual expenditure incurred during the year, and the non-effective expenditure, which is invested by the FRSS.

In tables V and VI, VIII and IX, and XI and XII, five new first-level categories are presented as part of the economic classification, with the previous 19 categories becoming second-level subcategories, thus increasing the level of detail of the information presented to the National Parliament and its understanding.

Finally, minor adjustments are made to the names of the budget programs, with Program 510: Good Governance and Institutional Management becoming Program 510: Institutional Functioning and Development, and Program 980: Gender Equality and Social Inclusion becoming Program 980: Social Inclusion.

Justification of the request for priority and urgency

This draft law is presented with a request for priority and urgency, under the terms of Rule 97 of the Rules of Procedure of the National Parliament of the Democratic Republic of Timor-Leste.

In order for the IX Constitutional Government to execute the General State Budget, it is necessary to adjust the budget structure to the new organic structure of the Government, approved by Decree-Law 46/2023, of July 28.

In addition, in order to combat the continuous and persistent inflation affecting Timorese citizens, it is necessary to immediately amend the excise and import duty rates applicable in 2023.

Finally, in order for the Government to begin work on the preparation of the 2024 State Budget, amendments must be made to Law No. 2/2022 of February 10, Framework for the State Budget and Public Financial Management, to bring the budget process in line with the philosophy of the IX Constitutional Government.

Delay in the discussion and approval of this proposed law will seriously affect budget execution in 2023 and hinder the implementation of the Government's priorities for the first 120 days and will delay the preparation of the General State Budget for 2024.

Therefore, it is of utmost importance that the discussion and approval of this bill can take place in the shortest possible time, and that the benefits resulting from the proposed changes can be felt by the population as soon as possible.