

Alternative Minimum Tax

Understanding Taiwan's Tax Regulations

Taiwan's Taxation Administration implemented the Alternative Minimum Tax (AMT) system effective 1 January 2006. The system comprises two separate regimes: one applicable to individuals and the other to corporations.

Background

Historically, high-tech companies and certain high-net-worth individuals have made extensive use of tax planning tools to significantly reduce, or even eliminate, their income tax liabilities in Taiwan. As a result, despite accounting for a substantial share of Taiwan's economic activity, these taxpayers contributed relatively limited amounts of tax revenue.

To address this imbalance, Taiwan's Taxation Administration introduced the Alternative Minimum Tax (AMT) system, effective from 1 January 2006, applying separately to individuals and corporations.

Effective from 2023 onward, the corporate AMT deduction threshold increased from TWD 500,000 to TWD 600,000. Effective from 2024 onward, the individual AMT deduction threshold increased from TWD 6,700,000 to TWD 7,500,000.

The AMT system adopts a distinct set of rules from the regular income tax regime to determine taxable income. Where the regular income tax exceeds the AMT amount, no additional tax is payable. However, if the AMT amount exceeds the regular income tax, the difference is added to the income tax payable, resulting in the taxpayer paying the full AMT amount.

Scope limitation

AMT does not apply to the following entities:

- Sole traders and partnerships
- Not-for-profit organizations
- Government-owned enterprises
- Businesses without a fixed place of business or agent in Taiwan
- Businesses in liquidation or declared insolvent

For individuals, AMT applies only to Taiwan tax residents. The definition of tax residency is relatively broad. For example, any Taiwan national with a registered household in Taiwan who stays in Taiwan for at least 31 days during a fiscal year will generally be regarded as a Taiwan tax resident.

Computing income subject to AMT

For legal entities

Income subject to AMT for legal entities is computed as follows:

Taxable income + Approved exempted income under tax incentives scheme + Capital gains from securities and futures

trading¹ + Banking institution's offshore branch profits = Income subject to AMT

For individuals

Income subject to AMT for individuals is computed as follows:

taxable income + foreign source income + insurance payout portion in excess of TWD 33.3 million + net capital gains earned from selling non-public company shares², units of privately placed investment trust funds + tax deduction claimed for non-cash based donations made = income subject to AMT

Notes:

1. Pursuant to Article 12 of the Income Basic Tax Act, foreign-source income of less than TWD 1 million per annum is excluded from the AMT calculation. If foreign-source income exceeds TWD 1 million, the full amount must be included.
2. Capital gains from the sale of non-public company shares must be included in the AMT computation. Where such shares are held for more than three years, only 50% of the gain is included.

AMT Formula and Applicable Rates

The AMT is calculated using the following formula:

(Income subject to AMT – deductions) × AMT tax rate = AMT payable

Applicable AMT rates and deduction thresholds from fiscal year 2025 onward are as follows:

	AMT Tax Rate	Deduction
Legal Entities	12%	TWD 600,000
Individuals	20%	TWD 7,500,000.

Example A

Business Entity A reports the following results for fiscal year 2025:

Book profit	10,000,000
Tax loss from prior year	2,000,000
Exempted income	4,000,000
Taxable income	4,000,000

Corporate income tax =
 $4,000,000 \times 20\% = 800,000$

AMT =
 $(4,000,000 + 4,000,000 - 600,000) \times 12\%$
 $= 888,000$

As the AMT exceeds the regular corporate income tax, Business Entity A must pay AMT instead of corporate income tax.

¹ For securities held for longer than 3 years, only 50% of capital gains need to be included in the computation.

² If the shares belong to a company that is classified as high-risk venture business by the Government and the business has not been established for more than 5 years, then profits earned from trading in the shares can be exempted from AMT.

$$(968,000 + 10,000,000 - 7,500,000) * 20\% = 693,600$$

Example B

Business Entity B's trading results for the year 2025 ended as follows:

Book profit	10,000,000
Tax loss from prior year	2,000,000
Exempted income	6,000,000
Capital gains from trading in securities	2,000,000
Taxable income	-

$$\text{Corporate Income tax} = 0 * 20\% = 0$$

$$\text{AMT} = (0 + 6,000,000 + 2,000,000 - 600,000) * 12\% = 888,000$$

As the AMT exceeds the regular corporate income tax, Business Entity B must pay AMT instead of corporate income tax.

Example C

Mr. A is married and has two children. He computes his household income for the year as follows:

Personal Income	2,000,000
Tax Exemption	352,000
Tax Deduction	680,000
Taxable Income	968,000

$$\text{Personal income tax} = 78,360$$

Assume Mr. A earned capital gains of TWD 10 million from the sale of shares in a non-public company during the year. These gains are tax-exempt under the regular income tax regime and therefore excluded from regular income tax computation, but they must be included for AMT purposes.

AMT computation:

As the AMT exceeds the regular personal income tax, Mr. A is required to pay AMT.

Utilization of Past Period Losses

For individuals, capital losses arising from transactions involving non-public company shares or units of privately placed investment trust funds may be carried forward for up to three years.

For legal entities, where income subject to AMT is negative, such losses may be carried forward for up to five years.

Planning Considerations

The introduction of the AMT, together with limitations on the use of tax incentives, has effectively eliminated the ability of high-tech companies to fully offset taxable income while remaining profitable. As a result, under certain circumstances, operating through a Taiwan branch of a foreign company may be more tax-efficient than establishing a subsidiary.

This is illustrated below:

	Branch	Subsidiary
Profits before tax	TWD 10m	TWD 10m
Tax	TWD 2m	TWD 2m
Investment tax credit ³	Nil	(TWD 0.66m)
AMT	NA	TWD 1.14m ⁴
After tax income	TWD 8m	TWD 8.66m

³ Investment tax credit capped at 1/3 of corporate income tax payable.

⁴ This amount is lower than corporate income tax payable and therefore has no impact on the tax payable amount.

Withholding tax on dividend	Nil	TWD 1.82m ⁵
Net dividend	TWD 8m	TWD 6.84m

In addition to legal structuring considerations, businesses should carefully assess the cash tax impact of AMT. As tax incentives can no longer reduce tax liabilities to zero, we recommend that business entities perform tax simulations, including AMT exposure, as part of year-end tax planning and budgeting. Where uncertainties arise, professional tax advice should be sought.

Contact



Jay Lo

Managing Partner

T +886 2 2789-0887 ext. 1314

E jay.lo@tw.gt.com

www.grantthornton.tw

⁵ Withholding tax on dividends for approved investment is 21%.