

Force of Attraction

Understanding Taiwan's Tax Regulations

Force of attraction refers to rules for foreign enterprises in Taiwan that conduct business with domestic customers.

Ministry of Finance (MOF) ruling Tai Tsai Shui 7575300, issued in January 1987.

Taxation Rules for Foreign Enterprises with Domestic Branches When Their Overseas Headquarters Directly Sell Goods or Services in the Territory

When a foreign enterprise's overseas headquarters directly sells goods or provides services to customers in the Republic of China (Taiwan), its profit-seeking enterprise income tax liability shall, starting from January 1, 1987 (Minguo Year 76), be handled in accordance with the following rules:

1. Sale of Goods

Such transactions shall be treated under general international trade principles and shall no longer be regarded as taxable business income of the domestic branch. However, any subsidies or commissions remitted by the overseas headquarters to the domestic branch arising from these transactions must be reported by the domestic branch as taxable income and included in its profit-seeking enterprise income tax filing.

2. Provision of Services

Compensation received by the overseas headquarters for services rendered directly to customers within the territory of the Republic of China constitutes ROC-source income of the foreign enterprise. The domestic branch of the

foreign enterprise is required to pay profit-seeking enterprise income tax on such income in accordance with the law.

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