

Tax Incentives Related to Logistics Warehouse Use in Taiwan

Understanding Taiwan Tax Regulations

In order to be more in line with international standards, the Taiwan Government has amended tax regulations relating to the use of logistics warehouses.

1. Introduction

In order to be more in line with international standards, the Taiwan Government has amended tax regulations relating to the use of logistics warehouses. The following are relevant changes released in 2018 and 2019.

- A tax ruling relating to the computation of deemed profit was released in April 2018 (TaiTsuSu 10600664060).
- The Act for the Establishment and Management of Free Trade Zones was revised in January 2019.
- Regulations Governing Profit-seeking Enterprise Business Income Tax Exemption for Foreign Countries, Mainland China, Hong Kong, or Macau Profit-seeking Enterprises Conducting Goods Storage and/or Simple Processing Operations in Free Trade Zones was revised in October 2019.

2. Key features of the changes

- Logistics warehouses owned and operated by a foreign company in Taiwan meeting prescribed conditions can use a deemed profit formula to compute its corporate income tax in Taiwan. Please refer to the deemed profit table in Appendix 1 of this article which summarizes various applicable scenarios for the use of a deemed profit formula.

Corporate income tax can be computed as follows if a deemed profit method is used:

$\text{Sales} * \text{contribution ratio} * \text{deemed net profit ratio} * 20\% \text{ (corporate income tax rate)} = \text{Corporate income tax payable.}$

For example, the total value of goods shipped out of the warehouse is TWD 10 m. Say the contribution ratio is 3% and the deemed net profit ratio is 12%. Total tax payable = TWD 10m * 3% * 12% * 20% = TWD 7,200.

- If the logistics warehouse is kept in a Free Trade Zone, corporate income tax can be exempted if the following conditions can be met:
 - The work carried out in Taiwan does not change the nature of the goods. For example, the work carried out in Taiwan only involves re-labelling, re-packaging, or cutting.
 - The foreign company does not carry out sales activities in Taiwan.
 - The place of effective management is not in Taiwan.
 - The customer is not a natural person.
 - The FTZ transaction flow matches with one of the samples listed in Appendix 2 of this article.

3. FTZ Corporate Income Tax Exemption Filing Requirement

In order to qualify for a full income tax exemption, an application must first be filed with the FTZ for certification on the nature of work carried out at the logistic warehouse. This application must be made prior to the end of 3rd month of the subsequent tax year. The following supporting documents need to be attached to the application form:

- Corporate registration document
- Declaration form to say that the Place of Effective Management is not in Taiwan.
- Logistic warehouse usage plan. The plan needs to include
 - Company information including date of incorporation, paid-in capital, name of directors, name of general manager, number of employees, business scope, business address, and contact person.
 - Description of main business activities including business functions and risks carried out in and outside of Taiwan.
 - Description of the relevance of the business activities to be carried out in Taiwan relative to the overall business.
 - Explanation as to why the tax exemption can apply to this case.
- Copy of contract signed to engage an FTZ enterprise to assist with the purchase, import, storage, or delivery. An abbreviated Chinese version of the contract is also needed.

After receiving the above-mentioned certificate, the tax agent of the foreign company needs to attach the following to the corporate income tax return to claim FTZ income tax exemption.

- Copy of certification letter from FTZ government office as mentioned above.
- Tax incentive claim form

In general, preferential treatment will be given if the above documents are prepared and reviewed by a qualified CPA in Taiwan.

A copy of the tax incentive claim form also needs to be submitted to the FTZ government office within one month after filing of corporate income tax return.

4. Tax Exemption Under a Double Tax Agreement

Taiwan has signed a number of double tax agreements (also known as DTAs) with different countries. The DTAs often contain a clause to exempt storage facilities from the definition of permanent establishment. Accordingly, if the foreign company is from a country that has a signed DTA with Taiwan, it may be possible to apply for an income tax exemption either before or after filing the corporate income tax return for the storage facility. Any excess tax paid can be refunded upon filing a tax refund application.

5. Complexity and Solutions

These tax announcements are significant, especially for companies interested in setting up a logistics warehouse in Taiwan. The FTZ government office and tax office are eager to encourage foreign companies to come to Taiwan to make use of FTZs. If your business model is complex and requires a professional tax opinion, please do not hesitate to contact our tax team for assistance.

Contact



Jay Lo

Managing Partner

T +886 2 2789-0887 ext. 1314

E jay.lo@tw.gt.com

www.grantthornton.tw

Appendix 1: Deemed Profit Permissible Scenarios

Type of goods stored in the warehouse		Type of activities carried out in Taiwan						Profit contribution
Self-manufactured abroad	Purchased from abroad	Import	Storage	Processing	Sales	Delivery		
○		○	○		Sold to customers while the goods are stored in Taiwan.	Taiwan domestic/foreign customers	3% (Logistic work only)	
	○	○	○		Carried out sales activities abroad. Sold to customers while the goods are stored in Taiwan.			
○		○	○	○	Sold to customers while the goods are stored in Taiwan.	Taiwan domestic/foreign customers	3% + X%(See Note 1 below) (Capped at 100% in total).	
	○	○	○	○	Carried out sales activities abroad. Sold to customers while the goods are stored in Taiwan.			

Note 1:

X% as quoted above is computed based on the following formula.

$$X\% = \frac{\text{Total processing costs incurred in Taiwan excluding the cost of raw materials and semi-finished goods purchased}}{\text{Related costs and expenses incurred in Taiwan including the cost of raw materials/semi-finished goods and shipping costs for sending them to customers} + \text{Related costs and expenses incurred abroad including the value of goods imported as per the custom declaration form}}$$

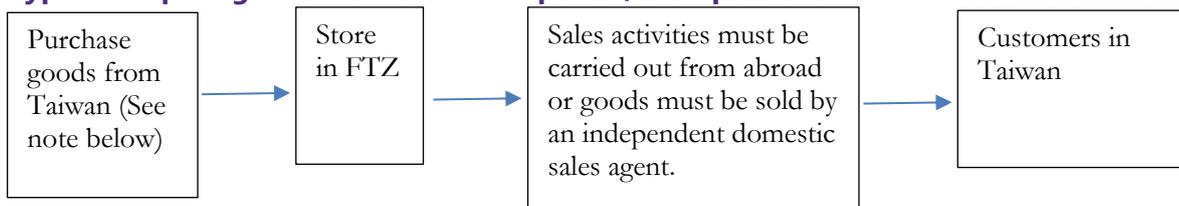
Appendix 2: FTZ transaction flows

Type 1: Purchase from Taiwan and then export



Note: Goods can be purchased from an FTZ enterprise or non-FTZ enterprise.

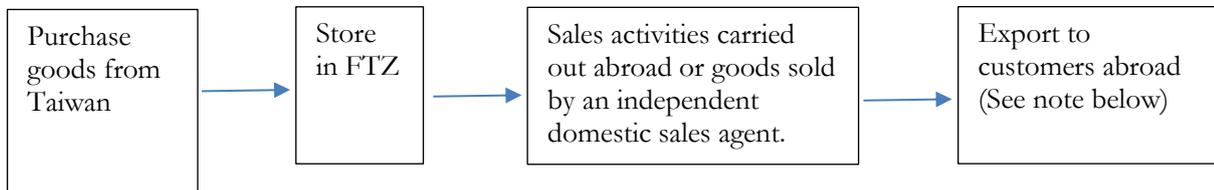
Type 2: Acquire goods from an FTZ importer, then pass them on to customers in Taiwan.



Note:

Goods purchased from Taiwan must come from one of Taiwan's FTZs. The seller must not have altered the nature of the goods after importing them to Taiwan. The seller must only have used the warehouse in FTZ for logistics work and preparation work only.

Type 3: Purchase processed goods from Taiwan and then export



Note: For purchasing processed goods from Taiwan, there must be an agreement to buy them back after processing and a commitment to export all of the goods purchased.

Type 4: Store imported goods in an FTZ warehouse and then sell them to customers

