

Maintaining an accounting record for a Taiwan entity

Understanding Taiwan Tax Regulations

Experience shows that, in most cases, it is not cost-efficient for a company to maintain books outside of Taiwan. Please consider the following regulations prior to deciding where to maintain your accounting record.

Introduction

Grant Thornton Taiwan strongly recommends that clients with any type of entity in Taiwan maintain their accounting records locally. Experience shows that, in most cases, it is not cost-efficient for a company to maintain books outside of Taiwan. Please consider the following regulations prior to deciding where to maintain your accounting record:

- compliance requirements
- withholding tax compliance
- VAT compliance
- income tax reconciliation
- formatting requirements

Compliance requirements

- location of accounting record

Article 45 of the Tax Collection Act :

Where a profit-seeking enterprise fails to maintain accounting books or record transactions as required by the prescribed regulations, it shall be subject to a fine of no less than three thousand New Taiwan Dollars (NT\$3,000) but no more than seven thousand and five hundred New

Taiwan Dollars (NT\$7,500), and shall, in addition thereto, maintain accounting books or record transactions as required by the prescribed regulations within one (1) month. Failure to maintain accounting books or to keep records within the given time limit shall cause the violator to be liable for a fine of no less than seven thousand and five hundred New Taiwan Dollars (NT\$7,500) but no more than fifteen thousand New Taiwan Dollars (NT\$15,000), and the violator shall maintain accounting books or to record transactions as required by the prescribed regulations within one (1) month. If the violator further fails to do so within the given time limit, it shall be ordered to suspend its business until the required accounting books are maintained or transactions are recorded in accordance with the prescribed regulations.

A profit-seeking enterprise which fails to keep accounting books or maintain accounting books at its business place without good cause shall be imposed with a fine of no less than fifteen thousand New Taiwan Dollars (NT\$15,000) but no more than sixty thousand New Taiwan Dollars (NT\$60,000).

Article 78 of the Business Entity Accounting Act :

"If accounting records are not kept in the company's premises, the responsible person of the business can be fined between NT\$ 30,000 ~ NT\$ 150,000."

- Language

Article 8 of the Business Entity Accounting Act :

Except for Arabic numerals used in numbering, all recording of business transactions must use the domestic language; If it is necessary to include remarks in or concurrently use any foreign language or local language, domestic language must be predominant.

Article 79 of the same act sets forth the penalty for violation of the above article, which could subject the company's responsible person to a fine of NT\$10,000 – NT\$50,000.

We have also seen several instances in which Taiwan tax officials required a company to translate its entire set of accounts into the Chinese language for tax inspection.

EAS vs IFRS

Effective from January 2016, private companies in Taiwan need to follow the Enterprise Accounting Standard (Also known as EAS) for preparing financial statements. Public companies need to follow IFRS for preparing financial statements. EAS is less cumbersome than IFRS and is intended to help small and medium companies comply with international standards and yet keep the cost of preparing financial statements at a reasonable level. Financial statements prepared under EAS would look similar to a set of financial statements prepared under IFRS but with fewer disclosure requirements. Further, there are fewer standards set under EAS compared to IFRS.

Withholding tax compliance

According to Taiwanese law, certain payments are subject to withholding tax. It is the responsibility of the bookkeeper to ensure that withholding tax is deducted and reported correctly before

recording such entries in the accounting record. Payments subject to withholding tax include payments to individuals for services, bonuses, commissions, rent, or other matters.

Tax withheld from Taiwan residents must be paid to the Taxation Administration by the 10th day of the month following the payment. Tax withheld from non-Taiwan residents needs to be paid to the Taxation Administration within 10 days of making the payment.

VAT compliance

Value-added tax (VAT) is levied on all goods sold and services performed within the territory of the Republic of China. The current VAT rate is 5%.

Taiwan business entities are required to purchase pre-printed, sequentially-numbered Government Uniform Invoice (GUI) books from the Taxation Administration. GUIs must be used for all customer invoices.

Please note that the Taxation Administration's computer system is linked to other government agencies, including customs. Therefore, all imports of goods for commercial purposes must clear customs in the proper manner. If this is not done correctly, the computer system will likely select you for a detailed tax investigation.

In addition, Taiwan's Motor Vehicle Registration Department passes information regarding transfers of vehicle ownership to the VAT department. Therefore, it is important to write out a GUI invoice when selling a company car.

VAT on some expense items can be claimed as input VAT. Furthermore, in some instances, VAT can be zero-rated. The Grant Thornton bookkeeping division can help you determine which VAT-related incentives you may qualify for.

Income tax return and tax reconciliation

The Taiwan corporate income tax return includes a number of tax reconciliations. They can be listed as follows:

- Reconcile reported revenue per VAT filings to reported revenue per income statement
- Reconcile reported salary expenses per tax certificates issued to employees to salary expenses per income statement
- Reconcile reported rental expenses per tax certificates issued to a landlord to rental expenses per income statement
- Reconcile reported professional service fee expenses per tax certificates issued to professional fee charges per income statement
- Reconcile total interest income per tax certificates received to interest income per income statement
- Reconcile other income and expenses per tax certificates received to other income and expenses per income statement
- Reconcile inventory movement report to sales and cost of sales per income statement

The bookkeeper must have in-depth knowledge of Taiwan's withholding tax regulations so that any discrepancy between the book amounts and the amounts listed on the tax certificates can be reconciled.

Formatting requirements

Taiwan's corporate income tax return requires companies to present their balance sheet and income statement in a prescribed manner. Various tax limitations apply to different expense types. It is important to ensure that the accounting software used by your company can cope with these types of classifications.

Document retention requirements

Article 38 of the Business Entity Accounting Act :

All the accounting documents, except those which should be permanently kept or which are related to unsettled accounting events, shall be kept for at least five years after the completion of the year-end closing process.

All the accounting books and financial statements shall be kept for at least ten years after the completion of the year-end closing process, provided that no unsettled accounting matters exist therein.

Articles 26 and 27 of the Regulations Relating to Accounting Records and Supporting Vouchers Retention for Business Entities released by the Taiwan Tax Office state that with prior written approval from the district tax office, a business entity can choose to keep the accounting record and supporting vouchers in electronic format after the business entity has received a tax assessment from the tax office for a given year. Upon receiving the approval, a business entity can destroy the original copy and only keep the electronic copy. However, records in electronic format shall still be kept for a period not shorter than the retention period prescribed by Law.

If you have any questions relating to the above information, please consult a partner from Grant Thornton Taiwan.

Contact



Jay Lo

Managing Partner

T +886 2 2789-0887 ext. 1314

E jay.lo@tw.gt.com

www.grantthornton.tw