

Major Differences between IFRSs and R.O.C. GAAP (Also known as EAS)

In Taiwan, Taiwan-IFRSs and R.O.C. GAAP have some differences. Only major and commonly referenced differences are listed below, and more differences can also come up due to changes being released from time to time.

R.O.C GAAP is also known as EAS (Enterprise Accounting Standard). The major differences between IFRSs and EAS can be summarized below. (Please note that this is not a comprehensive list. Only major and commonly referenced differences are listed below. More differences can also come up in the future due to changes being released from time to time):

Balance Sheet

1) Consolidation

Taiwan EAS does not require holding companies to prepare consolidated financial statements. A Taiwan holding company only needs to equity account its subsidiaries.

2) Share-based payments

Taiwan EAS has less stringent disclosure requirements relating to share-based payments.

3) Leased assets

Tax ruling No 10904546810 issued by the Ministry of Finance on 22 May 2020 states the following:

- *The useful life of the right-of-use asset should not be shorter than the useful life promulgated by the MOF pursuant to Article 51 of the Income Tax Act.*
- *Estimated decommissioning, removal, and restoration costs, which constitute a portion of the right-of-use assets, should not be depreciated and/or expensed until they are incurred.*
- *Gains or losses arising from revaluations or the impairment of leased assets pursuant to other accounting standards are not considered realized for tax purposes.*

For simplicity, many small companies in Taiwan may choose to book entries based on the above tax ruling.

For IFRS 16, in general, the lessee needs to recognize the present value of right-of-use assets and the present value of obligations for future lease payments liabilities. Rental payments need to be reclassified as depreciation and interest.

Under Taiwan EAS, the lessee still needs to distinguish between operating leases versus capital leases and process accounting entries accordingly.

4) Defined Benefits Pension Plan

Under EAS, the Company needs to have its pension plan actuarially valued on the balance sheet date and recognize the net periodic pension costs. The excess of the projected benefit obligation over the fair value of plan assets is recognized as a pension obligation on the balance sheet. Actuarial gains and losses should be amortized over the expected average remaining working lives of the participating employees, or profit and loss should be recognized immediately in full in the period in which they occur.

Under IFRS, the Company should carry out an actuarial valuation on defined benefit obligations in accordance with IAS No. 19, "Employee Benefits."

Under IAS No. 19, "Employee Benefits," the Company elects to recognize actuarial gains and losses immediately in full in the period in which they occur. Other comprehensive income is classified under retained earnings. Subsequent reclassification to earnings is not permitted.

In addition, under EAS, the minimum pension liability should be recognized in the balance sheet. If the accrued pension cost is less than the minimum amount, the difference should be recognized as an additional liability.

Under IFRS, there is no aforementioned requirement for minimum pension liability.

5) Investment in real estate

Under EAS, the company can choose to recognize such real estate based on cost. There is no need to disclose fair value.

6) Income Tax

Under EAS, a 5% undistributed profits tax is recognized in the subsequent year. Under IFRSs, a 5% undistributed profits tax is recognized in the same year as income.

Grant Thornton's international bookkeeping team can advise companies regarding these and related issues. Please feel free to contact us anytime.

7) Goodwill

Under EAS, it is possible to amortize goodwill in a reasonable systematic manner. However, under IFRSs, this is handled via asset impairment testing.

8) Asset Revaluation

Under EAS, depreciation is computed based on the revalued amount. If the asset is subsequently sold, any gain or loss is recognized through income statements.

Under IFRSs, revaluation reserve get transferred to retained earnings when realized.

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