

Sharing management expenses with a Taiwan branch

Understanding Taiwan Tax Regulations

The allocation of management expenses to the Taiwan branch must be done on a revenue pro-rata basis, computed over the total revenue of the company

Legal reference

According to Article 70 of Taiwan's Regulations Governing Assessment of Profit-seeking Enterprise Income Tax, a branch office of a foreign profit-seeking enterprise in Taiwan may share a portion of the non-trading division management expenses of its head office or regional headquarters. The allocation of the management expenses to the Taiwan branch must be done on a revenue pro-rata basis, computed over the total revenue of the company. Interest on capital provided to the branch must be excluded from the said management expenses calculation.

The following supporting documents are required:

1. The foreign head office's (or regional headquarters') CPA audit report listing management expense details and methods of allocating management expenses to the Taiwan branch.
2. A copy of the foreign head office's (or regional headquarters') financial statements.

The regulation quoted above does not define what constitutes a "regional headquarters." However, the Taipei Tax Office released a news article on 6th November 2020 to define "regional headquarters" to be a group entity owned by the same head office of the Taiwan Branch. Whether this interpretation to limit the status of a "regional headquarters" will be upheld by a Taiwan Court of Law has yet to be seen.

Timing

Grant Thornton Taiwan must receive the above-listed supporting documents before the branch's income tax return is filed. The deadline for filing a corporate income tax return is five months after the end of the financial year.

Other information

- The branch is not required to pay withholding tax on management expenses paid to the head office.
- The head office can choose to charge the Taiwan branch less than the computed amount.
- Taiwan's tax officers will closely scrutinize the category of expenses included in the allocation formula. They will reject any inclusion of salaries of marketing managers in the computation formula, as these are not considered to be management overhead.

Sample report

A sample report is provided in the following pages below.

Contact



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(To be printed on CPA firm's letter head)

SAMPLE

1 May, 2026

The Board of Directors
ABC Limited-Taiwan Branch
4/F., No. 333 XYZ Road
Taipei 105, Taiwan, R.O.C.

Dear Sirs,

ABC Limited - Taiwan Office
Absorption of overheads in respect of head office expenditure

We have examined the books and records in respect to the overhead expenditures for ABC Limited – Head Office, and hereby certify that:

1. The relevant portion of head office overhead absorbed by the Taiwan branch as set out in Schedule 1 has been calculated in proportion to the percentage of the Company's total revenues that were derived from the Taiwan branch (see Schedule 2); and
2. The revenues and expenses of the head office based on which the overhead allocation was made are genuine and properly extracted from the books and records of the head office.

In our opinion, the basis of overhead allocation is fair and conforms with the generally-accepted accounting principles in Taiwan.

Yours faithfully

LCM/cm

Schedule 1

SAMPLE

Expenses

(Expressed in USD)	Total
Administration	10,989.24
Travel/Accommodation	121,527.38
Printed Materials	27,389.78
Rental	48,044.50
Miscellaneous	24,049.48
Direct overhead	<u>3,916,206.83</u>
TOTAL EXPENSES	<u>4,148,207.21</u>
% attributable to Taiwan Branch	12.17%
Expenses attributable to Taiwan Branch	<u>504,837</u>
Equivalent to NTD @32.5	<u>16,407,197</u>

Schedule 2

SAMPLE

Revenue

(Expressed in USD)	Total
Major Sponsorship	1,746,167.00
Co-Sponsorship & Ticket Revenue	1,191,441.06
TV & Promotion	66,704.10
Revenue received in Taiwan	<u>416,139.43</u>
	<u><u>3,420,451.59</u></u>

$416139.43/3420451.59= 12.17\%$