



Sharing of Management Expenses

Legal Reference

According to Article 70 of Taiwan's income tax audit regulations, the branch office of a foreign profit-seeking enterprise in Taiwan may share a portion of the non-trade-related management expenses of the 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 company's 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 company's financial statements.

Notarization and Authentication

Taiwan's tax office requires that the above documents be notarized and authenticated. In other words, you must take the documents to a notary public in your home country for verification, following which you must take the notarized documents to the nearest Taiwan Foreign Affairs Office for authentication.

In most cases, the Taiwan Foreign Affairs Office will not check the content of the document. They will only verify whether the signature of the notary public on the document is genuine and whether the notary public is properly registered and authorized to act in this capacity.

You can find a list of Taiwan Foreign Affairs Offices at the following website:

<http://www.mofa.gov.tw/EnOfficial/Regions/AreaInfo/?opno=cb88453f-2569-4ef4-a220-8b58c732c517>

Timing

Supporting documents need to be provided to GT prior to the lodging of the branch's income tax return. The deadline for filing a corporate income tax return is five months after the end of the financial year.

Other Information

- The branch can pay management expenses to the head office without incurring any withholding tax.
- The head office can voluntarily charge the Taiwan branch less than the computed amount.
- Taiwan's tax office will closely scrutinize the category of expenses included in the allocation formula. The tax office will reject any inclusion of salaries of marketing managers or directors in the computation formula, as they are not considered to be management overhead.

Sample Report

A sample report is provided below.

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(To be printed on CPA firm's letterhead)
(This form must be authenticated by the Taiwan Foreign Affairs Office)

SAMPLE

8 May, 2014

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. We 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 book 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

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>

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>3,420,451.59</u>

$416139.43/3420451.59= 12.17\%$