



This fact sheet has been designed to provide businesses with international transactions an overview of **Taiwan's VAT system.**

### Scope

Article 1 of the Value Added and Non-Value Added Business Tax Act states “*business tax, in the form of value-added or non-value-added tax, shall be levied upon the sale of goods and services within the territory of the R.O.C. as well as upon imported goods.*”

Based on the above, value added tax (VAT) is charged on taxable transactions that take place in Republic of China (Taiwan). The fact that one party to the transaction may not be located in Taiwan is irrelevant for VAT purposes.

### Registration for VAT

If you have set up a business entity or if you have a permanent establishment that conducts trading activities in Taiwan, then you must register for VAT and submit bi-monthly or monthly VAT returns.

Once an application has been approved for the set-up of a business entity, the Company Registrar will automatically pass related information on to the tax office for VAT registration. The tax office will then instruct the registered responsible person of the profit-seeking enterprise to report to the tax office to purchase the first set of Government Unified Invoice (GUI) books.

District VAT officers will visit registered business entities on a regular basis. If a business entity appears to be non-existing or non-trading, the tax officer may, at his or her discretion, suspend an entity's right to purchase GUI invoice books.

### Government Unified Invoices (GUI)

GUI stands for Government Unified Invoices. In Taiwan, all VAT-registered vendors must apply to purchase pre-printed invoice books from the government. In general, only government-printed invoice books can be used for issuing invoices to customers. If a company would like to use self-printed invoices, it must apply for pre-approval

from the government. Any approved self-printed invoice must bear serial numbers allocated by the government.

Any invoice issued by one business entity to another must bear the Government Unified Invoice Number of the counter entity. A Government Unified Invoice Number is generally viewed as the identity number of a business entity in Taiwan.

By controlling the GUI serial numbers, the government can track invoices issued by one business to another. Through cross-checking VAT filings to income tax returns, the government has made it difficult for businesses in Taiwan to under-report income.

In addition, as a means to prevent businesses from under-reporting income for transactions carried out with individuals, the Taiwanese government has introduced a lottery system over GUI serial numbers. The purpose of this mechanism is to encourage individuals to collect GUIs from sellers. Customers that obtained GUIs for non-business purposes can cross-check GUI serial numbers to set lottery numbers announced by the government. The top prize for the rotary is set at NTD 2 million.

### Importing goods

Importers are required to pay VAT on goods imported to Taiwan at the time the goods are cleared through customs. VAT paid on imports can be claimed as a credit if the importer is a registered VAT vendor.

### VAT rates 2014

**Standard rate 5%:** All taxable supplies not otherwise specified.

**VAT-exempted:** Certain essential and unprocessed foods, land, post office stamps, hospital care, educational services provided by a kindergarten or school, etc.

**Zero-rated VAT:** Exports of goods and services, sales made by duty-free shops to passengers, sales made to business enterprises located in export zones or science parks, international telecommunications-related business, sales made by international transportation-related businesses (subject to the same reciprocal treatment be given by the counter country) and others.

Documentation requirements must be fulfilled in order to qualify for zero-rated VAT. Article 11 of the Enforcement Rules of Value Added and Non-Value Added Business Tax Act. States: “The documents required for application for zero percent tax rate by a business entity, pursuant to Article 7 of the Act, shall be as follows:”

1. For goods exported-

*Except for goods which are exported through the Customs and thus are exempt from submitting supporting documents, a photocopy of the international parcel receipt issued by the postal service is required.*

2. For services rendered in relation to exports, or services rendered within the ROC but used outside the ROC-

*If the foreign currency obtained has been exchanged with or deposited in a bank designated by the government, the supporting documents shall be the voucher of foreign exchange issued by a bank authorized for foreign exchange business. If the foreign currency obtained has not been exchanged with or deposited in a bank designated by the government, a photocopy of the receipt of foreign currency is required.*

3. For goods sold through duty-free shops, established in accordance with relevant regulations, to passengers in transit or departing the territory of the ROC-

*The sales invoices, approved by the supervising Customs to be stored in an electronic medium, bearing the passport numbers or travel document numbers of the transit or departing passengers. But for those goods sold in the restricted areas of international airports or harbors, the sales invoices are not required to bear the passport numbers or travel document numbers of the transit or departing passengers.*

4. For goods sold to export businesses inside tax-free export zones, businesses inside the Science-based Industrial Park, or bonded factories or bonded warehouses administered by the Customs-

*The documents issued by the Customs evidencing such sales as export, or the offsetting copy of uniform invoices issued by the said businesses, bonded factories or bonded warehouses*

5. For enterprises engaged in international transportation-

*The detailed list of sales revenue earned by transporting outbound goods or passengers.*

6. For sales of vessels and aircraft navigating on international routes, and ocean fishing ships-

*Photocopies of the sales contracts.*

7. For sales of goods or rendering of repair services to vessels and aircraft navigating on international routes, and ocean fishing ships-

*The photocopies of the Export Applications Certified issued by the Customs, the documents issued by the Customs, evidencing that such vessels or aircraft have been delivered, or the repair service contracts..*

8. Other supporting documents approved by the Ministry of Finance.”

### **Bad debt relief**

In general, no bad debt relief can be claimed. However, in cases where a post-dated check received has subsequently bounced, profit seeking enterprises can fill out a special application for credit on VAT already paid.

### **Filing**

VAT is accounted for on the VAT filing. In general, a VAT filing must be completed once every two months and is due on the 15th day following the end of the period (the taxpayer can apply to file VAT on a monthly basis). Where a VAT refund is needed, the government will give priority assessment if the VAT filing has been audited by a CPA firm.

### **Penalties**

Late returns are subject to penalty. The penalty is 1% of the tax payable for every two days overdue, provided that the filing is less than 30 days past due. If the filing is more than 30 days overdue, additional penalties will apply. Failure to register for VAT is punishable by a fine of NTD 1,000 - 5,000. The penalty is increased or decreased according to the taxpayer's response or lack thereof to comply.

### **Input tax credits**

Tax shown on the tax invoice can be recovered as input credits. Input tax credits cannot be claimed by entities that are not registered for VAT in Taiwan.

VAT is not recoverable when:

1. Supporting documents with respect to purchased goods or services are not obtained or kept in accordance with Article 33.

2. The goods or services purchased are not for the use of principal or ancillary business operations. This limitation does not apply to purchases made for assisting national defense construction, troop morale, and contribution to the government.
3. The VAT was paid on goods or services for social relations purposes.
4. The VAT was paid on goods or services rewarded to individual employees.
5. The VAT was paid on passenger cars for personal use.

### **Timeline for issuing GUI forms**

Businesses must issue GUIs to the counter party when the earlier of the following conditions occurs:

- . Cash received
- . Delivery of goods or services completed

The payment of a security deposit does not trigger an output tax liability. The supplier must issue a GUI to enable the recipient to claim an input tax credit.

### **Partial exemption**

Businesses whose income is composed only of exempt supplies cannot recover the VAT they incur and may not register for VAT at all.

Where a business makes both taxable and exempt supplies, it will have to make an apportionment.

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