

Compulsory VAT Registration for Foreign E-commerce Operators

Background

Taiwan has undergone rapid development in the e-commerce market over recent years, and foreign e-commerce operators constantly knock on Taiwan's door wanting to trade with Taiwanese residents via the internet. Most of these e-commerce operators have no permanent establishment in Taiwan. In the past, foreign companies having no permanent establishment in Taiwan did not need to register for Taiwan VAT. In order to close this e-commerce tax collection gap, the Taiwanese Ministry of Finance has revised VAT regulations. Effective from 1 May 2017, international e-commerce operators that meet certain criteria will be forced to complete Taiwan VAT registration.

VAT registration

Effective from 1 May 2017, foreign e-commerce operators having no fixed place of business in Taiwan but who provide services to individuals in Taiwan via the internet must register for VAT if their annual Taiwan sales exceed TWD 480,000 (Approximately USD 15,500). Affected e-commerce operators should register for VAT either by themselves or through a tax agent. To register for VAT, foreign e-commerce operators need to provide the following information:

- Name of the foreign e-commerce operator
- Responsible person's name
- Description of the business
- Contact information
- Tax agent information

- Banking details
- Company registration papers from the country of origin
- Power of attorney for appointing a tax agent

This change is in line with international trends and is expected to fix a loophole in which some foreign e-commerce operators doing business in Taiwan were not paying taxes. Taiwanese law makers believe this change will help increase the government's revenue and help to create more jobs for Taiwanese locals.

In accordance with Article 45 of Taiwan's VAT Regulations, the penalty for not completing VAT registration can range from TWD 3,000 ~ TWD 30,000. If a foreign enterprise fails to comply after being notified of an offense, they can be subject to consecutive penalties.

Issuance of local invoices (also known as GUI's)

As per tax office exemption, foreign e-commerce operators having no fixed place of business do not need to issue GUI's to customers. This exemption shall remain in effect until 31 December 2018.

Filing of VAT returns

Registered foreign e-commerce operators must file VAT returns bi-monthly, within 15 days after the end of each filing period. VAT filing periods are normally two-months long. VAT can be paid via on-line transfer to the bank account of the tax office.

Related Industries

This amendment affects foreign e-commerce operators that sell services in Taiwan, whether or not they have a place of business in the country. Hotel booking sites, ridesharing apps, online game valet sites and online bidding sites are all subject to this amendment.

Income Tax Implication

The Ministry of Finance has announced that registered foreign registered e-commerce operators should also be liable for Taiwan corporate income tax. The tax office will allow foreign e-commerce operators to file tax returns using a deemed profit formula. This deemed profit formula is as follows:

$$\text{Sales} \times \text{Deemed profit percentage} \times \text{Contribution ratio} \times \text{corporate income tax rate (20\%)} = \text{Tax payable amount.}$$

The deemed profit percentage is set at 30% for platform service provider. Contribution ratio varies from 100% to 50% pending on circumstances.

This tax amendment is significant. Grant Thornton Taiwan's tax team can help companies stay compliant with related regulations as well as capitalize on planning opportunities to reduce tax burdens. If you have any questions regarding this amendment or need help, please feel free to contact us.

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