

# Taiwan's VAT system

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, shall be levied in accordance with this Act on the sale of goods or services within the territory of the Republic of China (R.O.C.) and the import of goods.”*

As the above legislation states, Taiwan levies value-added tax (VAT) on all taxable transactions that take place in the Republic of China (Taiwan), regardless of whether or not both parties to the transaction are located in Taiwan. This article will outline Taiwan's VAT requirements as they apply to profit-seeking enterprises doing business in the country.

## VAT registration requirements

Any profit-seeking enterprise with a business entity or permanent establishment that conducts trading activities in Taiwan must register for VAT and file bi-monthly or monthly VAT returns.

In addition, 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 internet must register for VAT if their annual Taiwan sales exceed TWD 480,000 (Approximately USD 15,500).

VAT registration can be completed by one of the following methods:

- Automatically become registered and tracked by the tax office when registering a legal entity in Taiwan.
- Via special application to the tax office.

Once an application has been approved for the set-up of a business entity, Taiwan's Company Registrar automatically forwards related information to the Taxation Administration for VAT registration. The Taxation Administration will then instruct the profit-seeking enterprise's legal representative to report to the Taxation Administration to purchase the first set of Government Uniform Invoice (GUI) books.

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

In the case of foreign e-commerce operators having no fixed place of business in Taiwan, VAT registration should be completed via special application to the tax office.

## Government Uniform Invoice (GUI) Books

In Taiwan, all VAT-registered vendors must apply to purchase pre-printed invoice books from the government. 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 invoices must bear serial numbers allocated by the government.

Any invoice issued by one business entity to another must bear the Government Uniform Invoice Number of the purchasing entity. A GUI Number is generally viewed as a business entity's identification number in Taiwan.

By controlling GUI serial numbers, the government is able to keep track of all invoices issued to businesses. Through cross-checking VAT filings to income tax returns, the government has made it difficult for businesses in Taiwan to underreport income.

The Taiwanese government has developed a lottery system using GUI serial numbers to help prevent businesses from underreporting income from transactions with individuals. The purpose of this mechanism is to encourage individuals to collect GUIs from businesses where they purchase goods and services. Customers that obtain GUIs for non-business purposes can cross-check GUI serial numbers against lottery numbers announced by the government. Winning numbers for cash prizes of varying monetary values are announced every two months, with the top prize set at NTD 2 million.

## VAT on imported 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 VAT-registered vendor.

## 2017 VAT rates

**Standard rate: 5%** (All taxable transactions not otherwise specified below)

### VAT-exempted:

- Sales of 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
- Sales made by international telecommunications-related businesses
- Sales made by international transportation-related businesses (subject to reciprocal treatment by the other country) and other similar transactions.

### Zero-rated VAT required documentation:

Documentation requirements must be fulfilled in order to qualify for zero-rated VAT. Article 11 of the Enforcement Rules of the 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, bad debt relief cannot be claimed to offset VAT requirements. However, in cases when a post-dated check received has subsequently bounced, a profit-seeking enterprise can fill out a special application for credit on VAT already paid.

### Filing

Profit-seeking enterprises must file VAT returns by the 15<sup>th</sup> day following the end of each filing period, which in most cases is a two-month period (the taxpayer can apply to file VAT on a monthly basis if preferred). When VAT refunds are requested, tax officers give priority assessment to VAT filings that have been audited by a CPA firm.

### Penalties for noncompliance

Late VAT filings are subject to a penalty of 1% of tax payable for every two days overdue. Additional penalties apply to filings more than 30 days overdue. Failure to register for VAT is punishable by a fine of NTD 1,000 - 5,000. The severity of the penalty depends on the degree to which the taxpayer cooperates in remedying the infraction.

### Input tax credits

VAT shown on tax invoices can be recovered in the form of input credits. Input tax credits can only be claimed by entities that are 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 Goods or services purchased are not for principal or ancillary business operations. This limitation does not apply to purchases made for promoting national defense construction, troop morale, or contributions 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

In any transaction, businesses must issue GUIs to the other party once either payment is received or the goods or services are delivered, whichever comes first. Please note that the payment of a security deposit does not trigger an output tax liability.

### Partial exemption

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

Where a business derives income from both taxable and exempt transactions, it must file a claim for apportionment.

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