Tax incentives - Statute for Industrial Innovation (SII)

Understanding Taiwan's tax regulations

The Taiwan Government amended the Statue for Industrial Innovation (also known as SII) towards end of 2019 hoping to achieve national objectives.

1. Introduction

The Taiwan Government amended the Statue for Industrial Innovation (also known as SII) towards end of 2019 hoping to achieve the following objectives:

1. Promotion of industrial innovation or R&D.
2. Provision of guidance relating to industrial technology and industrial upgrading.
3. Encouraging enterprises to establish innovation or R&D centers.
4. Assisting in the establishment of innovation or R&D institutions.
5. Promoting collaboration between industries, academic institutions, and research institutions.
6. Encouraging enterprises to participate in workforce cultivation in schools.
7. Ensuring that there is an adequate supply of industrial human resources.
8. Helping local industries innovate.
9. Encouraging enterprises to use big data and open government data to develop and innovate commercial applications or service models.
10. Other matters relating to the promotion of industrial innovation or R&D.

2. Key features of the SII

Key features of the SII include the followings:

- Extension of the validity of SII to the end of December 2029

- New deduction available against a Company's undistributed profits tax, if the following conditions can be met. Use a Company's after tax profits to acquire an office or factory building, purchase equipment including hardware and software or technology (assets that cannot be capitalized are excluded. Land is also excluded). Total amount of investment cannot be less than TWD 1 million over a 3 year period. In addition to providing contracts and invoices, a copy of the shareholders' meeting minutes or directors' meeting minutes authorizing such investment must be provided. (Article23-3)

- R&D tax credit allows companies to take a tax credit of up to 15% of qualified R&D expenditures against corporate income tax payable for the current year. The tax credit is capped at 30% of the corporate income tax payable for the current year and may not be carried forward. Alternatively, companies can choose to take a tax credit of up to 10% of qualified R&D expenditures against its corporate income tax payable for the current year, with unutilized R&D tax credits carried forward for two consecutive years. The 30% cap on maximum tax credit that can be used to offset current period corporate income tax is still applicable (Article 10).

- An individual investing in a government approved high risk start-up companies for TWD 1 million or above and holds the shares for more than 2 years may claim personal income deduction amounting to 50% of the amount so invested in the year that the above conditions are fulfilled. The deduction is capped at TWD 3 million. (Article 23-2)

- Limited liability partnerships formed to invest in Taiwan start-up companies that to meet prescribed conditions relating to amount of investment made and capital raised for the limited liability partnership can be dis-regarded for tax purposes. This means that dividend income earned from investee companies can be viewed as each partner's income and not get taxed at the partnership level. (Article 23-1)

- Employees receiving shares in their company of employ under an incentive plan can choose to be taxed at the time of disposal instead of at the time of receiving the shares. If the employee continues to work for the same employer and holds the shares for more than 2 years before disposal of the shares, he or she can choose to be taxed at the lower of the market value of the shares at the time of disposal or at the market value of the shares at the time of receiving the shares. (Article 19-1)

- An individual or a company that transfers its intellectual property rights or grants its intellectual property rights in exchange for shares in a company can choose to be taxed at the time of disposal instead of time of receiving the shares. If the individual or the company continues to hold the shares for more than 2 years before disposal of the shares, the individual or the company can choose to be taxed at the lower of the market value of the shares at the time of disposal or at the market value of the shares at the time of receiving the shares. (Article 19-1)

Comments

Applications for tax incentives are generally closely scrutinized Taiwan's tax office. The tax office will factor both substance and formality into account when assessing a tax incentive claim. Accordingly, we recommend our clients to engage an experienced tax professional to review a tax incentive claim before submission to the tax office. If in doubt, please do not hesitate to contact our tax team for more information.

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