Compulsory VAT Registration for Foreign E-commerce Operators

Understanding Taiwan Tax Regulations

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).

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 of 1 January 2019, foreign e-commerce operators having no fixed place of business must issue GUIs or electronic GUIs to customers.

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 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:

Sales × Contribution ratio × profit percentage × corporate income tax rate (20%) = Tax payable amount.

Contribution ratios can vary pending on the following:

- Contribution ratio shall be 100% if all services/process flows are provided and utilized in Taiwan.
- If sufficient supporting document can be provided to clearly split out Taiwan contribution portion then contribution ratio can be assessed based on actual business performance. Required supporting document includes audited financial statements, transfer pricing study report, work plan and other related documents.
- If neither of the above applies, then the contribution ratio shall be 50%.

The profit percentage varies pending on the following:

- If sufficient supporting document can be provided to clearly split out Taiwan profit portion then Taiwan portion of profit can be assessed based on actual business performance. Required supporting document includes accounting records with related supporting vouchers.
- If no actual data can be provided, then the tax office may assess a deemed profit ratio based on published industry norms. The deemed profit ratio for platform service providers is 30%.
- If neither of the above can apply then deemed profit ratio shall be 30%.

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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