正大聯合會計師事務所 Grant Thornton

Taiwan corporate tax guide

Understanding Taiwan's Tax Regulations

Taiwanese resident corporations are subject to income tax on their worldwide income. Non-resident corporations, on the other hand, are subject to tax only on income derived within Taiwan through a branch or agent.

Jurisdiction

Parameters for determining income or gain subject to corporate income tax

Taiwanese resident corporations are subject to income tax on their worldwide income. A company is considered a resident corporation if its head office is based in Taiwan.

Non-resident corporations, on the other hand, are subject to tax only on income derived within Taiwan through a branch or agent.

Major taxes on corporations

Income tax

Effective from January 1, 2019, corporate income tax is fixed at 20%. Prior to this, starting from 1 January 2010 corporate income tax was fixed at 17%.

Alternative minimum tax (AMT)

Alternative minimum tax, which came into effect in 2006, is computed based on the following formula:

(Income Subject to AMT – Deduction)*Tax Rate = AMT Payable.

	AMT Tax Rate	Deduction
Legal entities	12%	NTD 500,000
Individuals	20%	NTD 6.7 million

Income subject to AMT is computed as follows for legal entities:

(Taxable income) + (Approved Exempted Income under Tax Incentives Scheme) + (Capital Gains from Security and Futures Trading) + (Banking Institution's Offshore Branch Profits) = Income Subject to AMT.

If a legal entity's income subject to AMT has been assessed as negative, these losses can be reserved for a period of 5 years.

Organizations taxable as corporations

Principal forms of business entities subject to corporate income tax

- limited company
- company limited by shares
- branch of a foreign corporation
- close corporation

- partnership
- B2C e-commerce operator that derives income from sources within Taiwan

Taxable income of resident corporations

The tax base

All categories of income are taxable in Taiwan unless specifically exempted. Generally, normal business expenses incurred can be deducted from gross income in determining taxable income, although certain restrictions exist. When an organization's official accounting books and supporting documents are not adequately maintained, the tax authorities may assess income tax based on standard profit rates determined by the Ministry of Finance.

Dividends

Dividends received by a resident corporation from a domestic corporation are not subject to income tax.

Dividends from foreign companies are taxable, but credit is given for foreign withholding tax, limited to the company's effective tax rate.

Depreciation is based on the type of asset and its useful life as prescribed by the government, and is usually calculated by the straight-line method. Use of other methods of depreciation is permitted only when advance approval is obtained from the tax authorities. Leasehold improvements are depreciated by the straight-line method over the period of the lease. Property, plant and equipment may be revalued in accordance with the revaluation regulations and depreciation provided based on the revalued cost. Depreciation deductible in one year cannot be carried over to a subsequent year.

Capital gains

Net capital gains from trading in unlisted stocks are subject to AMT.

Capital gains on the disposal of property and equipment are included in taxable income and taxed in the same manner as operating profits. From 1 January 1986, disposals of land are only subject to a land value increment tax (see "Other significant taxes" below), which is not deductible. Losses incurred on the disposal of fixed assets are deductible in the year of disposal.

A security transaction tax of 0.3% is levied on the gross amount of securities transacted. The seller is responsible for paying the security transaction tax.

Thin capitalization rule

Interest expenses on loans from related parties are tax-deductible to the extent that loan-to-equity is kept within a ratio of 3 to 1. Interest on the excess amount is not tax deductible.

Net operating losses

Operating losses may be carried forward to the tenth succeeding tax year when a "blue return" is filed (see "Returns" below) or when the return is certified by an independent certified public accountant. No carry-back of losses is permitted.

Charges by parent

Charges made by a related foreign entity are subject to careful examination by tax officials. Charges exceeding arm's-length standards may be adjusted in accordance with regular business practice. Charges by a parent company are subject to a 20% withholding tax. Charges made by the head office of a foreign company to a Taiwan branch of that company are free from withholding tax if the charges are computed in accordance with the prescribed formula and have been verified by a certified public accountant.

Foreign taxes

The income of foreign branches of a resident corporation is included in the resident corporation's taxable income. Income of foreign subsidiaries is included in the taxable income of the resident corporation only on the declaration of dividends by those subsidiaries.

Taxes imposed by foreign governments on the income of a resident corporation can be used as a credit against Taiwan income taxes payable up to the amount of the Taiwan taxes on the foreign income.

Taxation of non-resident corporations

Taxation of a registered branch or other permanent establishment

The income of non-resident corporations generated from operations in Taiwan through a Taiwan branch or agency is subject to income tax at the regular rate. When a non-resident company has a branch in Taiwan, the sales of commodities made by the head office directly to customers in Taiwan are not considered sales of the branch; only the commission earned on such sales is considered branch revenue. However, where a non-resident company has a branch in Taiwan, all income earned by the head office from providing services to customers in Taiwan is deemed to be sales revenue of the branch and is fully taxable.

Liaison or representative offices are not permitted to engage in activities which generate revenue and, therefore, are not subject to income tax.

Non-resident corporations engaged in certain international services may apply in advance to the Taxation Administration for approval to treat 10% or 15% of the gross revenue derived from Taiwan as taxable income.

Taxation at source of investment income paid to non-residents

Income tax on dividends, interest, royalties and income subject to deduction of tax at source (e.g. technical service fees) is satisfied by the withholding tax unless the income is connected with a branch or other permanent establishment in Taiwan.

Liquidation

Taxation of liquidation gains

Income arising during liquidation is subject to income tax. A return must be filed for the liquidation period. Liquidation distributions to shareholders consist of two portions: repayment of paid-in capital, which is not taxable, and the excess, which is taxable as dividends to the shareholders. Distributions of inventories and fixed assets to shareholders are valued at fair market value. Such distributions are subject to Business Tax (see "Other significant taxes" below).

Taxation of non-resident shareholders

Liquidation dividends paid to non-resident shareholders are subject to 21% withholding tax.

Reorganization

Mergers

The merger of two companies qualifies for tax benefits if the new company proves to the Ministry of Economic Affairs that the proposed reorganization will rationalize corporate operations, but will not result in a monopoly. Major tax benefits granted under this law include:

- relief from stamp tax and deed tax arising from the reorganization
- deferment of land value increment tax on the transfer of land to the new organization
- tax losses of the entities prior to merging may be carried forward to the merged entity subject to a prescribed formula
- tax incentives previously granted to the entities prior to merging may be carried forward to the merged entity subject to meeting prescribed conditions

Other forms of reorganization

The transformation of a limited company to a company limited by shares does not change the subject entity and is, therefore, not subject to any tax. Losses of the original company may continue to be carried forward by the new company.

Taxation of shareholders (corporations and individuals)

Taxation at source of investment income paid to non-residents

The tax liability of non-resident shareholders on a cash dividend declared by a local company, whether or not it enjoys a tax holiday, is fixed at 21%.

In general, a withholding tax of 20% applies to payments to non-residents of royalties, interest and other income generated in Taiwan.

Taxation of domestic shareholders of foreign corporations

Income from foreign sources received by resident corporations is subject to normal income tax.

Double taxation is avoided by means of foreign tax credits.

Returns

Taxable period and filing requirements

The taxable period is the calendar year. The use of any other taxable period requires advance approval from the tax authorities, in which case profits are apportioned to the relevant tax years.

Companies must file annually either a "blue" or an ordinary income tax return within three months after the end of the tax year. A blue return is used by an enterprise that has received approval from the tax authorities regarding its system of internal controls. The blue return has certain advantages in that operating losses can be carried forward for five years and the deductible limit for entertainment expenses is higher.

Certain companies, such as banks and insurance companies, publicly listed companies and those whose annual turnover exceeds NTD100 million, are required to have their tax returns certified by an independent certified public accountant.

Payment dates and advance payments

Advance payment at mid-year of corporate income tax for profit-seeking enterprises is due prior to the end of the ninth month of the company's fiscal year. The amount payable is assessed based on one half of the tax liability of the previous year.

Additional assessments

Additional assessments of corporate income tax may be made within five years. If a taxpayer is found to be guilty of fraud or in breach of tax filing requirements, the period is extended to seven years. The period runs from the date on which the tax liability arose - normally, the date when the tax return was filed or due to be filed.

Investment incentives

Major incentives

Investment incentives are divided into two categories - "tax related incentives" and "non-tax related incentives." Most of the tax related incentives are provided under the Statute for Industrial Innovation (SII), the Act for Development of Small and Medium Enterprises and the Statute for Development of Biotechnology and New Pharmaceutical Enterprises. Tax incentives offered generally cover R&D tax credits, offset against undistributed profits tax via utilizing undistributed profits for approved reinvestment, special tax deferrals for beneficiaries obtaining capital stock from contributing technical know-how and special tax deductions for hiring local additional staff or adjusting local staff salary upwards. R&D tax credit allows companies to take a tax credit of up to 15% of qualified R&D expenditures against its 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 if the 30% cap on the current corporate income tax is exceeded.

Non-tax incentives aim to make it easier for developing companies to succeed in Taiwan by reducing operating costs. These incentives include the Industrial Technology Development Program, land lease incentives in industrial parks, government participation in investment, and low interest loans.

Other significant taxes

There are no social security taxes in Taiwan. There are, however, a number of other potential tax burdens, which are outlined below.

Value Added Tax (VAT)

Value added tax (also known as business tax) of 5% is levied upon the supplies of goods and services within the territory of Taiwan, as well as upon imported goods. Transfer of ownership to others in return for a consideration is the key to determine whether business tax is to be imposed. Such a consideration is not limited to goods in exchange for money. Therefore, as long as the ownership of goods is transferred, business tax will be levied.

VAT is imposed on the following types of taxpayers:

- business entities which supply goods or services
- consignees or holders of imported goods
- recipients of services provided by a foreign enterprise, organization, institution or association which has no permanent business establishment within the territory of Taiwan

However, VAT is not levied on professional services rendered by professional practitioners or services performed by individual employees.

Exemptions from Value Added Tax

1. Zero-rated: exemption with credit is available for input VAT previously paid to export goods, services and goods supplied to export-related business and international transportation.
2. Non-credit exemption: exemption without credit is also available for input VAT previously paid. The 31 categories of non-credit exemptions are stipulated in Article 8 of the Value-Added and Non-Value-Added Business Tax Act.

Land tax

Land value tax is levied annually on the value of land as declared by the taxpayer, which may not be less than 80% of the government-accounted valuation. Land value tax is levied according to a six-bracket progressive tax rate ranging from 1% to 5.5%.

When land ownership is transferred, land value increment tax is levied on the increase in its value at progressive rates of 20-40%. The tax may be refunded if certain conditions are met.

New Integrated Housing and Land Tax System

Starting from January 1, 2016, individuals and profit-seeking enterprises with income derived from housing and land transactions which conform with the criteria listed below shall be subject to the new tax system for the assessment of income tax:
1. Houses (excluding farmhouses built in accordance with the Agricultural Development Act), land associated with those houses or any land which can be issued a construction permit by laws that are acquired after January 1, 2016.
2. Houses (excluding farmhouses built in accordance with the Agricultural Development Act), land associated with those houses or any land which can be issued a construction permit by laws that are acquired after January 2, 2014 and have been held for less than two years.

45% tax is levied upon income derived from housing or land transactions if the land or house has been held less than one year, and a tax rate of 35% is levied if land or houses has been held in excess of one year.

House tax

An annual tax of 3% to 5% is levied on business buildings.

Specifically selected goods and services tax (luxury tax)

Taiwan introduced the Specifically Selected Goods and Services Tax (also known as the luxury tax) in May 2011. Items covered by the luxury tax include:

- land and buildings held for less than 2 years
- taxable value of cars/yachts in excess of NTD 3 million
- taxable values of turtle shells, hawksbill, coral, ivory, furs, and their products in excess of NTD 500,000
- taxable values of furniture in excess of NTD 500,000

The tax rate is fixed at 10%. However, land and buildings held for less than one year are taxed at 15%.

Commodity tax

Commodity tax (known as excise tax in many countries) is levied on certain goods at their manufacturing stage. Commodity tax is levied on eight lines of commodities, which include tobacco and wine, rubber tires, cement, beverages, flat glass, oil and gas, electric appliances, and vehicles. The tax rate varies by commodity line, with flat glass being taxed at 10%, different types of beverages at 8% and 15%, some electric appliances at 10%, and some vehicles at 15-30%.

Deed tax

A deed tax of 2% to 6% is levied on the transfer of titles of buildings (this tax applies only to the building itself, and does not include the land upon which the building stands).

Other taxes

- stamp tax
- securities transaction tax
- inheritance and gift tax

Tax treaties and withholding tax rates

The general principles of taxation described in this publication may be modified in some cases due to tax treaties, which Taiwan's government has signed with the countries listed in the following tables:

List of Double Taxation Treaty Agreements

Country	Date of Signature	Effective Date
Australia	5/29/1996	10/11/1996
Austria	7/12/2014	12/20/2014
Belgium	10/13/2004	12/14/2005
Canada	1/13/2016 1/15/2016	12/19/2016
Denmark	8/30/2005	12/23/2005
France	12/24/2010	1/1/2011
Gambia	7/22/1998	11/4/1998
Germany	12/19/2011 12/28/2011	11/7/2012
Hungary	4/19/2010	12/29/2010
India	7/12/2011	8/12/2011
Indonesia	3/1/1995	1/12/1996
Israel	12/18/2009 12/24/2009	12/24/2009
Italy	1/06/2015 12/31/2015	12/13/2015
Japan	11/26/2015	6/13/2016
Kiribati	5/13/2014	6/23/2014
Luxembourg	12/19/2011	7/25/2014
Macedonia	6/9/1999	6/9/1999
Malaysia	7/23/1996	2/26/1999
New Zealand	11/11/1996	12/5/1997
The Netherlands	2/27/2001	5/16/2001
Paraguay	4/28/1994 3/6/2008	6/3/2010
Poland	10/21/2016	12/30/2016
Senegal	1/20/2000	9/10/2004
Singapore	12/30/1981	1/1/1982
Slovakia	8/10/2011	9/24/2011
South Africa	2/14/1994	9/12/1996
Swaziland	9/7/1998	2/9/1999
Sweden	6/8/2001	11/24/2004
Switzerland	10/8/2007 7/14/2011	12/13/2011
Thailand	7/9/1999 12/3/2012	12/19/2012
UK	4/8/2002	12/23/2002

Vietnam	4/6/1998	5/6/1998

Withholding Tax Table – Treaty Countries

Non-treaty Countries	20	15[1],20	20
Australia	10[2],15	10	12.5
Austria	10	10	10
Belgium	10	10	10
Canada	10[3],15	10	10
Denmark	10	10	10
France	10	10	10
Gambia	10	10	10
Germany	10,15[4]	10,15[5]	10
Hungary	10	10	10
India	12.5	10	10
Indonesia	10	10	10
Israel	10	7[6],10	10
Italy	10	10	10
Japan	10	10	10
Kiribati	10	10	10
Luxembourg	10,15[7]	10,15[8]	10
Macedonia	10	10	10
Malaysia	12.5	10	10
New Zealand	15	10	10
Netherlands	10	10	10
Paraguay	5	10	10
Poland	10	10	3[9],10
Senegal	10	15	12.5
Singapore	40[10]	NA	15
Slovakia	10	10	5[11],10
South Africa	5[12],15	10	10
Swaziland	10	10	10
Sweden	10	10	10
Switzerland	10[13],15	10	10
Thailand (Thai text)	5[14],10	10[15],15	10
UK	10	10	10
Vietnam	15	10	15

**The tax shall not exceed an amount which, together with the corporate income tax payable on the profits of the company paying the dividends, constitutes 40% of that part of the taxable income out of which the dividends are declared.*

The ROC's withholding tax rate on dividends, interest and royalties payable to a non-resident ranges from 15% to 21%. However, reduced withholding tax rates ranging from 5% to 15% percent are provided for in some cases by the treaty.

To enjoy the reduced withholding tax rate under the tax treaty, the foreign company needs to provide a copy of the resident certificate to the Taiwan company.

Corporate tax calculation

The following corporate tax calculation example demonstrates the computation of corporate income tax payable.

		NTD
Net book profit before income tax		10,800,000
Add:	Expenses not deductible for tax purposes	1,700,000
Less:	100% relief for cash dividends received from domestic company	(700,000)
Current taxable income		11,800,000
Less:	Creditable losses brought forward	(1,000,000)
Net taxable income		10,800,000
Income tax at 20% on NTD 10,800,000		2,160000
Tax paid in advance and / or withheld at source		(900,000)
Tax payable		1,260,000

Alternative minimum tax calculation

Alternative minimum tax is computed based on the following formula:

(Income subject to AMT-deduction)*(AMT tax rate) = alternative minimum tax

AMT tax rates and applicable deductions are listed below:

AMT Rate		Deduction
Legal Entities	**12%**	**TWD 500,000**

The following calculation example demonstrates the computation of AMT payable for a corporation.

Consider that the trading results of a business entity for the year ended as follows:

Book profit	10,000,000
Tax Loss from prior year	2,000,000
Exempted income	6,000,000
Capital gains from trading in securities	2,000,000
Taxable income	nil

Corporate income tax payable = 0*20%=0

AMT is computed as being
(0+6,000,000+2,000,000-500,000)*12%
= 900,000

Given that AMT is greater than corporate income tax in this example, the business entity should pay AMT instead of corporate income tax. Total tax due is therefore NTD 900,000.

Contact

Jay Lo
Managing Partner
T +886 2 2789-0887 ext. 314
E jay.lo@tw.gt.com
www.grantthornton.tw