正大聯合會計師事務所
Grant Thornton

# Transfer Pricing Update

## Understanding Taiwan Tax Regulations

Taiwan's Ministry of Finance has announced that it will require taxpayers that meet certain criteria to prepare three layers of transfer pricing documentation.

### Background

International tax systems continue to evolve, aiming to tackle concerns over base erosion and profit shifting (BEPS) and perceived international tax avoidance techniques performed by high-profile multinationals. The OECD's Action Plan and recommendations on BEPS have greatly influenced how Taiwan intends to shape its transfer pricing regime.

Transfer Pricing Audit Regulations were first introduced in Taiwan in late 2003. In 2017, after much discussion, Taiwan's Ministry of Finance announced that it will adopt the OECD recommendations and will require taxpayers that meet certain criteria to prepare three layers of transfer pricing documentation as follows:

- A master file giving an overall perspective on the business
- A local file containing information for each country
- A country-by-country report file (CbCR).

This regulation requiring three layers of transfer pricing documentation came into effect for the first time in the fiscal year ending 31 December 2017.

### Criteria

The following is a quick overview of the criteria:

| Type of document | Criteria |
|---|---|
| Master File | Annual revenue plus non-operating income for the Taiwan entity exceeds NTD 3 billion (approximately USD 96 million) and carried out related-party transactions in excess of NTD 1.5 billion per annum (approximately USD 48 million). |
| Local TP file | Annual revenue for the Taiwan entity exceeds NTD 300 million (approximately USD 9.6 million) and carried out related-party transactions amounting to more than NTD 200 million per annum (approximately USD 6.4 million). |
| Country by Country Report (CbCR) | CbCR is only needed if both of the conditions listed below are met.<br>1) Consolidated total group revenue for the prior year is in excess of NTD 27 billion |

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| | (approximately USD 871 million).<br>2) The Taiwan entity meets the requirements for Master File submission. |

## Deadline

Below is a quick overview of filing deadlines:

| Type of document | Deadline |
|---|---|
| Master File | Needs to be ready before the corporate income tax return is filed. The filing deadline is the end of the subsequent year. For 2022, the filing deadline is 31 December 2023. |
| Local TP file | Needs to be ready before the corporate income tax return is filed. One only needs to provide a copy to the tax office when called for. |
| Country by Country Report (CbCR) | The filing deadline is the end of the subsequent year. For 2022, the filing deadline is 31 December 2023. |

## Recommendation

For transfer pricing, the burden of proof is on the shoulders of the taxpayer. If a taxpayer is unable to provide supporting documentation as required, the tax office may proceed to adjust the profit margin of the Taiwan entity to a level that the tax office deems appropriate. Such an adjustment can be severe and arbitrary.

We recommend large multinational companies check whether or not they meet the criteria requiring them to prepare the three layers of documentation. If so, we recommend the ultimate parent company and related Taiwan entity plan ahead and work together to ensure that the required documentation can be presented to the Tax Office before relevant deadlines.

Transfer pricing is an increasingly complex issue facing multinational companies. Our specialized transfer pricing team understands your needs and has the experience necessary to guide you through these regulations. You can rest assured that our practical approach to providing transfer pricing solutions protects your business from incurring onerous tax penalties for transfer pricing adjustments and non-compliance with legislative requirements. Grant Thornton can also identify beneficial changes to business processes that may result in both substantial worldwide tax savings and other commercial benefits to your business.

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