



# Taiwan Tax Profile

**Produced in conjunction with the  
KPMG Asia Pacific Tax Centre**

# Table of Contents

<b>1 Corporate Income Tax</b>	<b>3</b>
<b>1.1 General Information</b>	<b>3</b>
<b>1.2 Determination of Taxable Income and Deductible Expenses</b>	<b>6</b>
1.2.1 Income	6
1.2.2 Expenses	6
<b>1.3 Tax Compliance</b>	<b>8</b>
<b>1.4 Financial Statements/Accounting</b>	<b>10</b>
<b>1.5 Incentives</b>	<b>12</b>
<b>1.6 International Taxation</b>	<b>13</b>
<b>2 Transfer Pricing</b>	<b>17</b>
<b>3 Indirect Tax</b>	<b>18</b>
<b>4 Personal Taxation</b>	<b>20</b>
<b>5 Other Taxes</b>	<b>21</b>
<b>6 Trade &amp; Customs</b>	<b>23</b>
<b>6.1 Customs</b>	<b>23</b>
<b>6.2 Free Trade Agreements (FTA)</b>	<b>23</b>
<b>7 Tax Authority</b>	<b>25</b>

# 1 Corporate Income Tax

## 1.1 General Information

### Corporate Income Tax

#### Tax Rate

The corporate income tax rate is 20% for fiscal years starting on or after 1 January 2018 (increased from 17%) and the threshold for subjecting a company to corporate income tax is TWD 120,000. Please refer below summary table:

Taxable income range (TWD)	Fiscal year 2018	Fiscal year 2019	Fiscal year 2020
0~120,000	0%	0%	0%
120,001~500,000*	18%	19%	20%
500,001+	20%	20%	20%

\* However, the income tax payable shall not exceed one half of the portion of taxable income more than TWD 120,000.

Resident company's earnings generated in a year and remaining undistributed by the end of the following year are subject to 5% surtax for the first fiscal year starting on or after 1 January 2018 (reduced from 10%).

In addition, resident and non-resident companies with a fixed place of business or a business agent in Taiwan are subject to alternative minimum tax ('AMT'). The current AMT rate is 12%.

#### Residence

The residence of a company for Taiwan tax purposes is determined in accordance with its place of incorporation or location of company seat (i.e. head office). A company which is incorporated in accordance with the Company Law in Taiwan or situates its seat in Taiwan is considered a resident for Taiwan tax purposes.

The tax authority have introduced a new rule regarding the tax residence of companies. This rule stipulates that companies registered outside Taiwan, but with effective management located in Taiwan will be deemed to be headquartered in Taiwan, and consequently constitute a Taiwan resident (i.e., the PEM rule). However, the actual effective date is yet to be determined by the Executive Yuan.

#### Basis of Taxation

A Taiwan resident company is taxed on its worldwide income.

#### Tax Losses

Tax losses may be carried forward for 10 consecutive years if the taxpayer meets all of the following criteria:

- Maintains sound accounting books and supporting documents
- Files its blue tax return or has its tax return certified by a certified public accountant
- Files its annual tax return within the statutory time limit

Tax losses cannot be carried back

#### Tax Consolidation/Group relief

Financial holding companies that hold 90% or more shares in a subsidiary may elect to file consolidated income tax returns, starting from the tax year when the 90% or more holding is held for the whole 12 months.

Furthermore, a company limited by shares that holds 90% or more shares in a subsidiary as a result of engaging in a merger, spin-off or acquisition (pursuant to specific regulation) may also elect to file consolidated income tax returns, starting from the tax year when the 90% or more holding is held for the whole 12 months.

The consolidated income tax returns shall include all eligible domestic subsidiaries. No prior permission is required for electing to file consolidated returns.

### Transfer of Shares

There is no separate capital gains tax in Taiwan for companies. Taiwan company's gains from the sale of qualified securities are exempt from corporate income tax but subject to AMT.

Gross proceeds received by the transferor of 'qualified securities' will also be subject to Security Transaction Tax.

### Transfer of Assets

On the transfer of land, the difference between the increased assessed land value upon acquisition and subsequent disposal is subject to land value incremental tax.

Moreover, if the land is acquired after Jan 1, 2016, tax for income derived from sale of land will be levied as follows:

1. 20% for a resident company
2. Tax rate for a non-resident company:
  - Holding period falls within 1 year: 45%
  - Holding period falls exceeding 1 year: 35%

For transactions of immovable property, the buyer shall report and pay deed tax. However if the land is located in an area where land value increment tax is assessed, the deed tax shall be exempted.

### CFC Rules

For any Taiwan resident company and its related parties directly or indirectly holding 50% or more of shares or capital of a foreign affiliated enterprise registered in a low-tax jurisdiction (corporate income tax rate that is less than 14% or has a territorial taxation basis), or having a significant influence on such a foreign affiliated enterprise, except in accordance with 1 of the following provisions, the surplus earnings of the foreign affiliated enterprise shall be recognized as the Taiwan resident company's investment income which is calculated according to the ratio and holding period of the shares or capital, and such investment income shall be included in taxable income of the current year :

1. The foreign affiliated enterprise has substantial operating activities in its country or jurisdiction.
2. The current year surplus earnings of the foreign affiliated enterprise are below TWD 700M.

However, the CFC rules have yet to take effect. The actual effective date is to be determined by the Executive Yuan.

### Thin Capitalization

In principle, a deduction for excess interest expense by a taxpayer will be denied if the taxpayer's debts are held with related parties and the debt-to-equity ratio exceeds 3:1. Companies in the financial industry, such as banks, financial holding companies, insurance companies, securities firms, etc., are not subject to the thin capitalization rules.

### Interest Deductibility Restrictions

Interests on loans that are used for business purposes are deductible in the year incurred. However, for a loan from a non-financial institution, the interest rate shall not exceed the rate as announced by the Ministry of Finance. For fiscal year 2018, the interest rate limitation is 15.6% per annum. As for interest on inter-company loans, the deductible amount is subject to the thin capitalisation rule and transfer pricing regulations.

### Amalgamations of Companies

A number of tax incentives are available under the Mergers and Acquisitions (M&A) Act to encourage M&A activities in Taiwan. Certain taxes, including income tax, value added tax (VAT), deed tax, land value

increment tax, securities transaction tax, and stamp duty, may be exempted or deferred in case of acquisitions, mergers, or corporate divisions (including spin-offs) that meet certain conditions.

The unexpired and unutilized net operating losses of the participating entities prior to the merger or spin-off may be carried over to the surviving or newly-created entity according to the percentage of shareholding in the surviving or newly-created company held by all shareholders of the participating entities.

### Earnings Stripping

None. Please refer comments under Thin Capitalization section.

### General Anti-avoidance

Taiwan's main anti-avoidance rules include substance-over-form rules.

### Other specific Anti-avoidance Rules

None

### Anti-treaty Shopping

No general anti-treaty shopping provisions exist in Taiwan domestic tax law. In practice, there is more emphasis on the substantive business purpose behind transactions.

### Rulings

Taxpayers may apply for advance tax rulings to obtain certainty regarding proposed cross-border transactions.

### Hybrid Instruments

There is no hybrid instruments regime in Taiwan.

### Hybrid Entities

There is no hybrid entities regime in Taiwan.

### Related Business Factors

The typical forms of legal entities used for conducting business in Taiwan are:

- Limited company,
- Company limited by shares, and
- A branch office.
- Limited partnership.

In general there is no minimum capital requirements for establishing a legal entity; except for some specific industries.

In respect of ownership requirements, 100% foreign ownership is generally allowed, with the exception of a restriction for Mainland China investors.

## 1.2 Determination of Taxable Income and Deductible Expenses

### 1.2.1 *Income*

#### **General**

A Taiwan resident company is taxed on its net income, which is defined as gross annual income after deduction of costs, expenses, losses, and taxes. Except for certain exempt items, income from all sources, including offshore and onshore, is subject to corporate income tax.

#### **Branch Income**

A Taiwan resident company's foreign branch income is taxable in Taiwan. However, foreign tax credits are provided for the underlying income tax paid up to the limit of the Taiwan income tax payable on the said income.

#### **Capital Gains**

Gains on the disposal of fixed assets are treated as ordinary income and taxed at the standard corporate income tax rate.

The sale of land are subject to land value incremental tax (LVIT). For sale of land which was acquired after 1 January 2016, any gain derived will be subject to income tax as well as LVIT.

Capital gains on disposal of Taiwanese qualified securities and futures by resident companies and non-resident companies with a fixed place of business or business agent in Taiwan are exempt from corporate income tax, but are liable for basic income tax of 12%, with an exemption amount of TWD 500,000. Capital losses may be deducted against capital gains and carried forward for 5 years. 50% of capital gains can be tax exempt should the securities be held for more than 3 years. In addition, securities transaction tax is levied on the sales proceeds.

#### **Dividend Income**

Intercompany dividend distributions between resident companies are excluded from taxable income in the hands of the recipient company. However, dividends received by a resident company from its non-resident subsidiaries are taxable. In such cases, the foreign tax paid may be able to be claimed as a credit against the Taiwan tax liability.

There is no dividend stripping rule, participation exemption or substantial shareholdings exemption in Taiwan.

#### **Interest Income**

Interest received on commercial paper, certain interest-bearing financial instruments and others is subject to withholding tax 10% for resident company or non-resident company with a fixed place of business in Taiwan and 15% / 20% for non-resident company without a fixed place of business in Taiwan. If this income should be reported and pay annual income tax, the withholding tax paid can be deducted against the income tax payable.

#### **Other Significant Items**

None.

### 1.2.2 *Expenses*

#### **General**

Expenses incurred in the ordinary course of business are generally deductible with certain expenses subject to a cap [e.g., entertainment expenses or specifically non-deductible (e.g., fines and penalties)].

#### **Minimum Taxation Requirements for the Deductibility of Losses**

All Taiwan resident companies, as well as non-resident companies with a fix place of business or business agent in Taiwan, should calculate AMT if they earn certain income that is tax-exempted or additional expense deductions (collectively referred to as tax deductible amounts). The basic income of a company is the amount calculated by taxable income adding back the tax deductible amounts, with a deduction of TWD

500,000. If the AMT amount is greater than the regular corporate income tax amount, taxpayers must pay income tax based on the regular corporate income tax amount plus the difference between the AMT amount and the regular corporate income tax amount. On the other hand, if the regular corporate income tax amount is greater than the AMT amount, no special action is required.

### **Capital Losses**

Losses incurred on the disposal of fixed assets, buildings and land acquired on or after 1 January 2016 are treated as ordinary business losses and generally treated as deductible against other business income.

For capital losses incurred on disposal of Taiwanese qualified securities and futures by resident companies and non-resident companies with a fixed place of business or business agent in Taiwan are subject to AMT. For such realised losses, it may be deducted against future capital gains derived from the disposal of Taiwanese qualified securities and futures and carried forward for 5 years.

### **Bad Debts**

Actual losses on bad debts are allowed for deduction when certain legal proceedings or time requirements have been satisfied. The loss should first be charged against the bad debt provision, which should not exceed either 1% of accounts receivable and notes receivable outstanding, or the actual average bad debt ratio for the past 3 years.

### **Change of Control Rules**

None

### **Depreciation/Capital allowance**

Depreciation on all fixed assets other than land, including premises, plants (buildings), and equipment, which are used to generate income, is allowed as deductions under prescribed depreciation methods. Prescribed intangible assets are allowed to be amortized and treated as deductible per prescribed life time.

### **Double Deductions**

The Taiwan resident company may deduct up to 200% of the amount of the qualifying R&D expenses within the current year (capped at corresponding income received). Such treatment cannot be used with R&D tax credit incentives again.

### **Interest Expenses**

Interests on loans that are used for business purposes are deductible in the year incurred. However, for a loan from a non-financial institution, the interest rate shall not exceed 15.6% per annum currently. As for interest on inter-company loans, the deductible amount is subject to the thin capitalisation rule and transfer pricing regulations.

### **Inventories**

Inventory must be valued at cost. If cost exceeds the net realisable value, the latter may be used as the valuation basis. Cost may be determined by the prescribed calculation method.

### **Other Significant Items**

None

## 1.3 Tax Compliance

### Compliance Requirements

Taiwan has an 'official assessment system' for income tax return filing, which involves the tax authority reviewing income tax returns before issuing an official assessment.

Tax returns are due on the following dates:

Annual income tax returns:

- Due during the period 1 May until 31 May, for a company with an income tax year aligning with the calendar year
- Due 5 months after the year-end for companies with income tax years that do not align with the calendar year

Provisional income tax returns:

- Due during the period 1 September until 30 September for a company with an income tax year aligning with the calendar year
- Due in the ninth month of the income tax year for companies with income tax years that do not align with the calendar year

Provisional income tax return filing is not required by taxpayers meeting certain conditions.

Further, resident company who did not distribute the preceding year's earnings within the prescribed time, it should report its undistributed surplus earnings together with its annual income tax return in the current year.

### Mandatory Electronic Filing

Electronic filings are available, however, not mandatory.

### Requirement to Prepare Tax computation / Return in Functional Currency

Businesses must use domestic currency (i.e., TWD) as a bookkeeping base. If foreign currency is used for bookkeeping due to business needs, it is still required to convert the foreign currency into domestic currency and prepare the tax return in domestic currency.

### Documents to File with Tax Return

Corporate income tax return forms shall be used in accordance with the following provisions:

- Ordinary return - to be used by profit-seeking enterprises other than those authorized to use the Blue return;
- Blue return - to be used by profit-seeking enterprises duly authorized by tax collection authority. The Blue return refers to the tax form which is printed according to the prescribed form on blue paper and designed for encouraging profit-seeking enterprises to make honest reporting of their income. Rules governing the use of blue income return forms shall be prescribed by the Ministry of Finance.

### Language to File Return, Computation and Supporting Documentation(s)

Except for Arabic numerals used in numbering, all recording of business transactions must use the domestic language (i.e., traditional Chinese); If it is necessary to include remarks in or concurrently use any foreign language or local language, domestic language must be predominant

### Payment of Tax

Tax is paid on a self-assessment basis in two instalments. The first payment is based on 50% of the tax liability of the prior year's tax return and is made in the ninth month of the enterprise's fiscal year. However, if the taxpayer meets certain requirements, it may self-assess the provisional tax based on the taxable income of the first half of the current fiscal year. The second payment is made at the time of filing the annual tax return. The returns are subsequently reviewed by the tax authorities, and a final assessment is issued.

### Penalties for Non-Compliance

Penalties are imposed for the late filling and failure to file a return. Late filing penalty is calculated at 10% of the tax payable and capped at TWD 30,000 but shall not be less than TWD 1,500.

If the taxpayer fails to file an income tax return after receiving a reminder from the tax office, the penalty will be increased to 20% of the tax payable, capped at TWD 90,000 but shall not be less than TWD 4,500.

For underreported income, a maximum penalty of twice the underpaid tax amount applies and will be increased to maximum 3 times the tax underpaid of an income tax return if it is not filed.

### **Penalties and/or Interest for Underpayment of Taxes**

A late payment penalty of 1% of the unpaid amount calculated every two days, up to a maximum of 15% of the unpaid amount, will apply, and late payment interest will begin to accrue from 30 days after the payment due date.

### **Statute of Limitation**

The statute of limitations in Taiwan is 5 years from the tax return filing date if the return is filed on time. Where a taxpayer fails to file an annual tax return within the statutory deadline or evades tax by fraud or any other unrighteous means, the statute of limitations is extended to seven years.

## 1.4 Financial Statements/Accounting

### Details of Local Accountant Requirements

Publicly listed companies and financial institutions which are required to submit their financial statements to Financial Supervisory Commission (FSC) will need to have their financial statements audited by a registered CPA.

Company with registered capital of TWD 30,000,000 or more will also need their financial statements to be audited by a registered CPA.

### Fiscal Year

The accounting period for businesses must start on January 1st and end on December 31st of each year. However, for those that obtained tax authorizes approval, the taxpayer can change its start date and end date.

### Periodicity of Local Books to be Closed

A business must close its books within two months (if necessary, can extend 2.5 months) after the end of each fiscal year.

### Documentation to be presented with the Financial Statements

The financial statements comprises of:

- A statement of financial position
- A statement of comprehensive income.
- A statement of cash flows
- A statement of changes in equity

### Financial Statements Language

Except for Arabic numerals used in numbering, all recording of business transactions must use the domestic language (i.e., traditional Chinese); If it is necessary to include remarks in or concurrently use any foreign language or local language, domestic language must be predominant.

### Retention Period for Statutory Financial Statements / Working papers

All the accounting supporting vouchers, except those which should be permanently kept or which are related to unsettled accounting events, must be kept for at least 5 years after the completion of annual closing procedures.

All the accounting records and financial statements must be kept for at least ten years after the completion of annual closing procedures; provided that there aren't any unsettled accounting events listed within.

### Requirements to Retain Physical Copies Locally/Electronically Stored Data to Reside on In-country Server

Relevant physical accounting documents (including supporting vouchers, accounting records, financial statements etc) must be kept in the Taiwan company's premises as appropriate. For companies to store data electronically, it must obtain prior approval from the tax authorities.

### Requirements to Prepare Financial Statements in Local Currency

Businesses must use domestic currency as a bookkeeping base. If foreign currency is used for bookkeeping due to business needs, it is still required to convert the foreign currency into domestic currency in its year-end financial statements.

## **What GAAP must the Financial Statements be Prepared Under?**

There are two accounting standards being adopted in Taiwan:

Taiwan International Financial Reporting Standard (TIFRS) governed by Financial Supervisory Commission (FSC) which is applicable to the companies listed publicly and financial institutions.

Enterprise Accounting Standards (EAS) governed by Ministry of Economic Affairs (MOEA) which is applicable to the companies other than the companies governed by FSC.

## **Prescribed Format and Details for Financial Statements**

A business, unless newly established, must prepare comparative financial statement for two consecutive years by disclosing the amounts in both the current year and previous year.

### **Filing Due Date**

Except for those companies regulated by the FSC, there is no prescribed filing due date.

### **Filing Format of Financial Statements**

A business enterprise must prepare the following reports/statements:

- Business Report
- Financial Statement
- Surplus or loss allocation statement

### **Filing Extension Availability and Details**

N.A

## 1.5 Incentives

### Intellectual Property Incentives

Where companies derive income from the transfer or license of their self-developed intellectual property (IP), the companies can generally deduct qualifying R&D expenses of up to 200% (capped at corresponding income received) within the current year.

### R&D Incentives

Taiwan's R&D tax credit incentive regime allows the qualifying R&D expenditure incurred by a company in a specific tax year to be claimed at 15% of qualified R&D expenditures by the company as a tax credit in the current year or 10% of qualified R&D expenditures against its corporate income tax payable over 3 years. The amount of the tax credit is limited to 30% of the income tax payable for the current year. There are other R&D tax incentives applicable to specific industries.

### Special Tax Regimes for Specific Industries or Sectors

The Statute for Industrial Innovation is enacted for the furtherance of industrial innovation, improvement of the industrial environment, and enhancement of industrial competitiveness. The term "industries" refers to agricultural, industrial, and service businesses.

There are also special regimes for specific industries or sectors, such as:

- The Biotechnology and new Pharmaceuticals Industry
- Private participation in Infrastructure Project
- Foreign profit-seeking enterprises conducting goods storage and/or simple processing operations in the Taiwan Free Trade Zone.
- Small and medium enterprises (SMEs).

### Other Incentives

To promote economic development in certain industries and facilitate operational efficiency (by means of corporate restructuring), the Government offers a series of tax incentives. These incentives relate to various industries and circumstances and include:

- Tax holidays
- Deferred tax on investment using self-developed IP
- Investment tax credits
- Accelerated depreciation
- Business mergers and acquisitions privileges

## 1.6 International Taxation

### Double Taxation Relief

Taiwan uses the credit method to avoid double taxation of income. Foreign taxes paid on foreign-sourced income may be credited against a company's total Taiwan income tax liability. However, the credit is limited to the incremental taxes derived from the foreign-sourced income.

### Foreign-exchange Controls

The Central Bank of the Republic of China (Taiwan) imposes a foreign exchange limitation of USD 50,000,000 per year for business entities, with respect to any foreign exchange, both inward and outward, other than trading or service revenue. If the settlement of foreign exchange purchased or sold has exceeded USD 50,000,000 it may not be processed until receiving approval from the Central Bank. This entails submitting the Declaration Statement along with evidencing documents through banking enterprises.

Any foreign exchange transactions of under TWD 500,000 would not be counted toward the limitation above nor be necessary to declare.

### International Withholding Tax Rates

**Dividends** - Dividends paid to non-residents are subject to withholding tax of 21% from 1 January 2018.

**Royalties** - Royalties paid to non-residents are subject to withholding tax of 20%.

**Interest** - Interest payments to non-residents are subject to withholding tax of 15% or 20%.

**Salaries** - Salaries paid to non-residents are generally subject to withholding tax of 18%.

Transactions in structured products - Income paid to non-residents from transactions in structured products is subject to withholding tax of 15%.

Other - Other Taiwan sourced income paid to non-residents is subject to withholding tax of 20%

## Withholding Tax Rates under the Income Tax Treaties

### Taiwan — Treaty Withholding Rates Table

	Dividends	Interest <sup>[1]</sup>	Royalties
	Individuals, companies (%)	Qualifying companies (%)	(%)
<b>Domestic Rates</b>			
<b>Companies:</b>	21	21	15/20
<b>Individuals:</b>	21	21	15/20
<b>Treaty Rates</b>			
<b>Australia</b>	15	10 <sup>[2]</sup>	10
<b>Austria</b>	10	10	10
<b>Belgium</b>	10	10	10
<b>Canada</b>	15	10 <sup>[3]</sup>	10
<b>Denmark</b>	10	10	10
<b>France</b>	10 <sup>[4]</sup>	10 <sup>[4]</sup>	10 <sup>[5]</sup>
<b>Gambia</b>	10	10	10
<b>Germany</b>	10/15 <sup>[8][9]</sup>	10/15 <sup>[8][9]</sup>	10/15 <sup>[10]</sup>
<b>Hungary</b>	10	10	10
<b>India</b>	12.5	12.5	10
<b>Indonesia</b>	10	10	10
<b>Israel</b>	10 <sup>[11]</sup>	10 <sup>[11]</sup>	7/10 <sup>[12]</sup>
<b>Italy</b>	10	10	10
<b>Japan</b>	10	10	10
<b>Kiribati</b>	10	10	10
<b>Luxembourg</b>	10	15 <sup>[14]</sup>	10/15 <sup>[14]</sup>
<b>Macedonia (FYR)</b>	10	10	10
<b>Malaysia</b>	12.5	12.5	10
<b>Netherlands</b>	10	10	10
<b>New Zealand</b>	15 <sup>[15]</sup>	15 <sup>[15]</sup>	10
<b>Paraguay</b>	5	5	10

Treaty Rates				
<b>Poland</b>	10	10	10	3/10 <sup>[16]</sup>
<b>Senegal</b>	10	10	15	12.5
<b>Singapore</b>	40 <sup>[17]</sup>	40 <sup>[17]</sup>	NA	15
<b>Slovak Republic</b>	10	10	10	5/10 <sup>[16]</sup>
<b>South Africa</b>	15	5 <sup>[18]</sup>	10	10
<b>Eswatini (previously Swaziland)</b>	10	10	10	10
<b>Sweden</b>	10	10 <sup>[19]</sup>	10	10 <sup>[20]</sup>
<b>Switzerland</b>	15	10 <sup>[3][21]</sup>	10 <sup>[22]</sup>	10 <sup>[23]</sup>
<b>Thailand</b>	10	5 <sup>[2]</sup>	10/15 <sup>[24]</sup>	10
<b>United Kingdom</b>	10	10	10	10
<b>Vietnam</b>	15	15	10	15

Notes:

1. Many of the tax arrangements provide for an exemption for certain types of interest, e.g. interest paid to public bodies and institutions, banks or financial institutions, or in relation to sales on credit or approved loans. Such exemptions are not considered in this column, unless otherwise indicated.
2. The rate generally applies with respect to participations of at least 25% of the capital of the dividend-paying company.
3. The rate generally applies with respect to participations of at least 20% of the capital of the dividend-paying company.
4. A most favored nation clause may be applicable with respect to dividends.
5. The 0% rate applies to interest paid on loans made between banks as long as the beneficial owner is a bank and a resident of the other territory.
6. Payments received as a consideration for the right to distribute software do not represent a royalty as long as they do not include the right to reproduce this software.
7. A most favored nation clause may be applicable with respect to royalties.
8. The higher rate of 15% applies to dividends distributed by a real estate investment company (as defined in the Act on Real Estate Stock Corporations with Listed Shares) of Germany that is tax exempt regarding all or parts of its profits or that can deduct the distributions in determining its profits.
9. A most favored nation clause may be applicable with respect to dividends.
10. The higher rate of 15% applies if the interest is the distributed income of a real estate investment trust or a real estate asset trust (i.e. trusts governed by the Real Estate Securitization Act) of Taiwan that is tax exempt regarding all or parts of its profits or that can deduct the distributions in determining its profits.
11. A most favored nation clause may be applicable in respect of dividends.
12. The lower rate applies to interest paid to a bank.
13. A most favored nation clause may be applicable in respect of royalties.
14. The rate of 15% is applied if the beneficial owner is a collective investment vehicle established in the other territory and treated as a body corporate for tax purpose in that other territory.
15. A most favored nation clause may be applicable with respect to dividends. The MFN clause states that if New Zealand concludes a convention with a third country with a lower rate, New Zealand shall

inform the Government of Taiwan and shall enter into negotiations with a view to providing comparable treatment.

16. The lower rate applies to royalties for the use of, or the right to use, industrial, commercial or scientific equipment.
17. The aggregate of dividend withholding tax and corporate income tax on the payer's profits cannot exceed 40% of the taxable income from which the dividends are declared.
18. The rate applies to dividends paid to a recipient who directly holds at least 10% of the capital of the dividend-paying company.
19. A most favored nation clause may be applicable with respect to dividends.
20. A most favored nation clause may be applicable with respect to royalties.
21. A most favored nation clause may be applicable to dividends.
22. Interest paid on loans made between banks is exempt.
23. A most favored nation clause may be applicable to royalties.
24. The lower rate applies to interest paid to a financial institution.

Please note the rates above are the withholding rates based on the double tax agreement. In many circumstances, there are requirements to be met in order to avail these rates. In this regard, the table should be used as a guide and not relied upon in isolation

Source: Ministry of Finance, IBFD

#### **Other Agreements**

Taiwan has also signed international transportation income tax agreements with specific countries.

#### **Income Tax Treaties for the Avoidance of Double Taxation (Negotiated, not yet in force at time of publication)**

Mainland China, Czech

#### **Agreements for the Exchange of Information**

None

#### **Indirect Offshore Disposal Rules**

Taiwan does not have specific rules where a foreign shareholder indirectly disposes of shares in a Taiwanese company, the gains derived would be subject to tax in Taiwan other than if the particular Taiwanese company is considered a real-estate rich entity

# 2 Transfer Pricing

## Requirements

Taiwan's transfer pricing regime adheres to the 'arm's length principle' and is basically based on OECD transfer pricing and US Internal Revenue guidelines.

Entities are required to maintain supporting documentation for the transfer pricing positions taken, and provide this to the tax authority upon request.

Taiwan's Advance Pricing Agreement (APA) regime allows enterprises meeting certain criteria to negotiate with the tax authority for an APA. An APA application should be made in the prescribed form before year-end of the first accounting period of the controlled transactions which are to be covered in the APA.

Generally, an APA is valid for 3 to 5 years. Where an enterprise's business nature has not materially changed, a one-time, maximum 5 year extension can be requested. However, there is no rollback provision in the APA program.

## Country-by-Country Reporting

The reporting entity should be the entity in Taiwan which is an Ultimate Parent Entity (UPE) or a Surrogate Parent Entity (SPE) of MNE group; or if the Taiwan entity is of a foreign group where the Taiwan tax authority cannot obtain CBCR from other tax jurisdiction.

An enterprise in Taiwan meeting any of the following conditions will be required to file CBCR:

- UPE of a MNE Group is a Taiwan entity and with annual consolidated group revenue in the immediately preceding fiscal year of more than TWD 27 billion.
- Taiwanese subsidiary/branch with UPE outside of Taiwan, and meets 1 of the followings:
  - The jurisdiction of tax residence of UPE have statutory provisions to file the CBCR, and does not meet the exemption requirements to file CBCR.
  - The jurisdiction of tax residence of UPE do not have the statutory provisions to file CBCR, MNE appoints one of the members to act as SPE to file the CBCR, which does not meet the exemption requirements to file CBCR.
  - The jurisdiction of tax residence of UPE do not have the statutory provisions to file CBCR, nor do they appoint any other members as SPE, and do not meet the exemption requirements to file CBCR in Taiwan.

The CBCR is required to be filed within 12 months after the last day of the reporting fiscal year. The first year for preparing the CBCR is covering fiscal year 2017.

If Taiwan tax authority is not able to obtain CBCR of MNE groups from other tax jurisdictions which have CBCR exchange agreement with Taiwan, Taiwanese entity should file CBCR to tax authority within 1 month after receiving tax authority's request.

The language of the CBCR has not been prescribed, however, according to the International trends, it is expected to be in English or Chinese.

## Master and Local Files Reporting

### Master File reporting

The reporting entity should be the Taiwanese Constituent Entities of an MNE Group.

A Taiwanese entity meeting the following conditions will be required to file the Master File:

- The Taiwanese entity's total annual turnover (include operating and non-operating) exceeded TWD 3 billion; and
- The Taiwanese entity's total annual cross-border controlled transaction amount has exceeded TWD 1.5 billion.

The Master File should be prepared when the company files its income tax return, and is required to be filed within 12 months after the last day of the reporting fiscal year. The first year for preparing the Master File is covering fiscal year 2017.

The report should be in Chinese. If it is reported in foreign language, a Chinese translation shall also be attached.

#### Local Files reporting

A Taiwan entity meeting any 1 of the following conditions will be required to file the Local File:

- The Taiwanese entity's total annual revenue (include operating and non-operating revenue) exceeded TWD 500 million; or
- The Taiwanese entity's total annual revenue (including operating and non-operating revenue) exceeds TWD 300 million but does not exceed TWD 500 million: and
  - the entity utilized tax credits of more than TWD 2 million in a particular year or there has been loss carried forward of more than TWD 8 million for the preceding 10 tax years; or
  - an enterprise has transactions with overseas related parties
- The Taiwanese entity's total annual controlled transactions amount is more than TWD 200 million

The Local File should be prepared when the company files its income tax return. The Local File is not required to be filed, however, the company will be required to provide it within 1 month from the date of tax authorities' request.

The report should be in Chinese. If it is reported in foreign language, a Chinese translation shall also be attached.

For those entities not meeting the requirement to prepare Local Files, it should prepare other transfer pricing substitute report to support that its related party transactions are on an arm's length basis.

#### Common Reporting Standard

The Legislative Yuan passed amendments to Articles 5-1 and 46-1 of the Tax Collection Act on May 26, 2017, establishing the legal basis for implementation of Automatic Exchange of Information (Including Financial Account Information) for Tax Purposes. Subsequently, on November 16, 2017, the Ministry of Finance announced Regulations Governing Common Reporting for Financial Institutions. Under the announced Regulation, CRS will be implemented in 2019 and exchange of information with foreign countries will start in 2020.

# 3 Indirect Tax

## Indirect Tax

Business Tax is imposed on the sale of goods and services within Taiwan, as well as the importation of goods into Taiwan. There are two systems under Business Tax:

- Gross Business Receipts Tax ('GBRT') – used by financial institutions, special vendors of food and beverages, and small businesses
- Value Added Tax ('VAT') – used by the remaining taxpayers

### Standard Rate

The GBRT rate for special vendors of food and beverages is 15% or 25%, and for small businesses is 0.1% or 1%, depending on the nature of the particular business.

The GBRT rate for a financial institution's core business sales revenue from banking and insurance is 5% (the sales amounts from reinsurance premiums shall be taxed at 1%). For other core business sales revenue streams of financial institutions, the GBRT rate is 2%. Non-core business sales revenue is subject to 5% GBRT or VAT (if the financial institution applies for a VAT system for its non-core business).

The standard rate of VAT is 5%. For the sale of goods or services in connection with exports, VAT is generally reduced to 0%.

Certain goods and services are exempt from GBRT and VAT.

### Further Information

For more detailed indirect tax information, refer to:

[KPMG's 2017 Asia Pacific Indirect Tax Country Guide](#)

# 4 Personal Taxation

## Income Tax

### Top Rate

Personal income tax

The progressive tax rate of personal income tax in Taiwan is from 5% to 40%.

Personal income tax is levied on a territorial basis, that is, only Taiwan sourced income of both resident and non-resident individuals is subject to Taiwan income tax. The income of resident individuals derived from sources outside Taiwan is subject to AMT.

Generally, capital gains on the sale of qualified securities is tax exempted.

### Social Security

Labour Insurance, Health Insurance, and Labour Pensions are payable in part by both employees and employers.

### International Social Security Agreements

None

### Visa Requirements

Foreign nationals and overseas Chinese citizens must apply for a visa before entering Taiwan. There are 3 main types of visas: landing, visitor, and resident visas. The type of visa required will depend on the purpose of the individual's entry into Taiwan.

When a foreign entity dispatches its foreign staff to perform the work set out in the agreement/contract with a local company over 1 month, pursuant to the Employment Service Act, the foreign staff shall obtain work permit before s/he starts to work in Taiwan.

A foreign national intends to obtain the work permit shall comply with 1 of the following requirements:

- Has Ph. D. degree or master degree in related field; or
- Graduated from a university with major in related field and at least 2 year work experience related to the position to be held; or
- Has at least ten-year outstanding work related to the position to be held; or
- Has worked at a multinational corporation for at least 1 year and being assigned by such corporation to Taiwan.

*\*the foreign staff shall provide relevant documents to verify above qualification. However, in case a foreign national will work in Taiwan less than 3 months, above documents do not need to be provided.*

After obtained work permit from the related authority, the foreign staff needs to apply for Alien Resident Certificate (ARC) as well, this ARC also contains the foreign staff's local tax identification number for tax filing purpose.

### Further Information

For more detailed personal taxation information, refer to:

[KPMG's Thinking Beyond Borders](#)

# 5 Other Taxes

## Stamp Duty

Stamp duty is levied on the following documents and contracts executed within Taiwan, as follows:

- 0.4% of the receipt amount for cash receipts (excluding cheques)
- 0.1% of the contract value for a contractual agreement executed to perform a specific job or task
- 0.1% of the contract value for contracts for lien, sale, exchange, donation, or division of real property, which is submitted to the Government for registration of title
- TWD 12 per contract in respect of contracts for the sale of movable properties.

## Property Tax

The prevailing land tax system includes:

- Land value tax – generally imposed at 1% to 5.5% of the assessed and publicly announced land value.
- Agricultural land tax – currently suspended
- Land value increment tax – levied on the current assessed land value increment from the transfer of land at rates of 20% to 40%. Tax reduction for long-term possession may be granted additionally.
- In addition, Taiwan imposes ‘vehicle license tax’, ‘house tax’ and ‘deed tax’ on property.

## Estate and Gift Tax

Estate tax is based on all property transferred at death. The scope of estate tax covers the following:

- Property left by the deceased who was a Taiwanese citizen and regularly resided in Taiwan, irrespective of whether the location of the property is within or outside Taiwan
- Property left by the deceased who was a Taiwanese citizen but resided outside Taiwan regularly, or who was not a Taiwanese citizen, only if the property is located within Taiwan.

The total estate is valued according to the prescribed property value prevailing at the time of death and is subject to estate tax as follows:

Net taxable estate amount (TWD)	Tax rate
0~50,000,000	10%
50,000,001~100,000,000	15%
100,000,001+	20%

Gift tax is based on all property transferred annually and includes:

- Gift made by a donor who is a Taiwanese citizen and regularly resides in Taiwan, irrespective of whether the property gifted is located within or outside Taiwan.
- Gift made by a donor who is a Taiwanese citizen but resides outside Taiwan regularly, or who is not a Taiwanese citizen, only if the property given away is located within Taiwan.

Generally, the taxpayer is the donor; however, in certain circumstances the recipient is liable.

The total gift is valued according to the prescribed property value prevailing at the time of transfer and is subject to gift tax as follows:

Net taxable gift amount (TWD)	Tax rate
0~25,000,000	10%

25,000,001~50,000,000	15%
50,000,001+	20%

There are exemption thresholds and prescribed deductions for Estate and Gift tax..

### Capital Duty

STT is imposed on the sale of certain types of securities (i.e. qualified securities). The applicable rates and securities are as follows:

- Share certificates issued by companies and certificates or receipts showing rights in share certificates - 0.3% of the transaction price
- Corporate bonds and other securities offered to the public which have been duly approved by the government - 0.1% of the transaction price.

However, in order to stimulate the bond market, STT on corporate bonds and financial debentures are exempt from security transaction tax until 31 December, 2026.

Where a buy order and sell order for a listed or OTC-listed stock is of the same kind and the equal quantity, and is executed on the spot market through the same brokerage account on the same day, STT shall be levied at the rate of 0.15% based on the transaction amount for sell order until December 31, 2021.

### Future Transaction Tax

Future transaction tax is imposed on trading of futures in the Taiwan Futures Exchange.

### Other Taxes

Amusement tax

# 6 Trade & Customs

## 6.1 Customs

### Customs Duty

Customs duty is payable by the consignee or the holder of the bill of lading for imported goods. The duty payable is based on the dutiable value or the volume of goods imported. The dutiable value is generally calculated on the basis of the true transaction price.

Customs duty rates fall into 3 categories, as follows:

- Special rate applied to goods imported from WTO member countries or from countries and territories that offer reciprocal treatment to Taiwan.
- Special rate applied to goods imported from countries and territories that are from specified Least Developed Countries or developing countries or areas, or from those countries or areas which have signed Free Trade Agreement or Economic Cooperation Agreement with Taiwan
- Ordinary rates

Nowadays, almost all major trading partners of Taiwan can apply the special rate.

### Excise Duty

Excise duties in Taiwan comprise commodity taxes, tobacco and liquor tax and specifically selected goods and services tax.

Commodity tax is a single-stage sales tax, levied on taxable commodities at the time when such goods are dispatched from a factory or are imported. Different rates of commodity tax apply to different types of commodities and are based on the value or volume.

Tobacco and alcohol products, whether manufactured domestically or imported from abroad, are subject to tobacco and liquor tax. Tobacco shall be subject to tobacco health and welfare surcharge as well.

A specifically selected goods and services tax shall be imposed on the sale, manufacture, and import of specifically selected goods or the sale of specifically selected services within the territory of Taiwan.

## 6.2 Free Trade Agreements (FTA)

### In Force

- Panama
- Republic of Guatemala
- Republic of Nicaragua
- Republic of El Salvador
- Republic of Honduras
- Singapore
- New Zealand
- ECA with the Republic of Paraguay
- ECA with the Kingdom of Eswatini

Source: Bureau of Foreign Trade, Ministry of Economic Affairs

### Concluded / Signed (pending domestic ratification)

Cross-Straits Economic Cooperation Framework Agreement

## In Negotiation

NA

### Economic Cooperation Framework Agreement (“ECFA”)

ECFA is a preferential trade agreement between Taiwan and Mainland China that aims to reduce tariffs and commercial barriers between the 2 jurisdictions.

Source: Bureau of Foreign Trade, Ministry of Economic Affairs.

# 7 Tax Authority

## Tax Authority

Taxation Administration, Ministry of Finance

Link to [Taxation Administration \[https://www.dot.gov.tw/en/index.jsp\]](https://www.dot.gov.tw/en/index.jsp)

## Tax Audit Activity

The tax authority annually sets out specific criteria indicating the group of tax payers that may be subject to a tax audit for that year. The selection of taxpayers for audit is computed based on the specific criteria chosen.

Criteria for selecting a particular taxpayers for tax audit can include matters such as:

- Those found to have avoided tax with significant evasion matters
- Per desktop review of tax returns and found there to be abnormal and significant breach of tax law
- Obtain of falsified tax vouchers to apply for input tax credits under VAT return
- Under desktop review of tax returns for consecutively 4 years without any tax enquiries or audit
- Annual income that exceeds TWD 100 million and does not have CPA certification report.

## Appeals

If a taxpayer is not satisfied with the tax office's assessment, it may lodge a petition by going through 1 or more stages of the 'administrative remedy procedures', as set out in consecutive order below:

- Recheck
- Administrative appeal

Administrative lawsuit.

## Current Topics for Focus by Tax Authorities

Key focus areas for the tax authority in tax audits conducted in recent years have included:

- Transfer pricing, including management fees paid to related parties
- Related party loans
- Related expenses for expats sent overseas
- Recognition of investment losses
- Intangible assets amortization
- Commission expenses
- Deduction of tax losses
- Bad debt write-offs
- Obsolete inventory
- Expenses and interest in relation to tax exempted income
- Tax incentives

# Contact us

**Sherry Chang****Head of Tax****Head of Transfer Pricing****KPMG in Taiwan**

T +886 2 8101 6666 ext. 04590

E [schang1@kpmg.com.tw](mailto:schang1@kpmg.com.tw)**Stephen Hsu****Head of Mergers & Acquisition (M&A) Tax****Head of Financial Services Tax****KPMG in Taiwan**

T +886 2 8101 6666 ext. 01815

E [stephenhsu@kpmg.com.tw](mailto:stephenhsu@kpmg.com.tw)**Eric Wu****Head of Global Compliance Management Services****KPMG in Taiwan**

T +886 2 8101 6666 ext. 03878

E [ewu2@kpmg.com.tw](mailto:ewu2@kpmg.com.tw)**Kevin Chen****Head of Global Disputes & Controversy Services****Head of R&D Tax Incentives****KPMG in Taiwan**

T +886 2 8101 6666 ext. 03174

E [kchen4@kpmg.com.tw](mailto:kchen4@kpmg.com.tw)**Willis Yeh****Head of Indirect Tax Services****Head of Trade & Customs****KPMG in Taiwan**

T +886 2 8101 6666 ext. 02281

E [wyeoh@kpmg.com.tw](mailto:wyeoh@kpmg.com.tw)**Ellen Ting****Head of International Tax****Head of Global Mobility Services****KPMG in Taiwan**

T +886 2 8101 6666 ext. 07705

E [eting@kpmg.com.tw](mailto:eting@kpmg.com.tw)**Lynn Chen****Head of Energy & Natural Resources Tax****KPMG in Taiwan**

T +886 2 8101 6666 ext. 05676

E [jhchen@kpmg.com.tw](mailto:jhchen@kpmg.com.tw)**Jerry Cho****Head of Legal Services****KPMG in Taiwan**

T +886 2 8101 6666 ext. 14688

E [jerrycho@kpmg.com.tw](mailto:jerrycho@kpmg.com.tw)[kpmg.com](http://kpmg.com)

This profile was provided by professionals from KPMG's member firm in Taiwan

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