
Taiwan Tax Updates

February 2017

Application for pre-approval to allow double deduction of R&D expense for intellectual property rights under Statute for Industrial Innovation

According to Article 12-1 of Statute for Industrial Innovation, beginning from January 1, 2016, Taiwan individuals or companies that have developed intellectual property and received income from the transfer or license of said intellectual property rights can deduct up to 200% of R&D expenses. Further, according to Article 7 of the Guidelines for Double Deduction of R&D Expense, an application for pre-approval and recognition of intellectual property rights will need to be submitted to the competent authority in the jurisdiction where the transferee or licensee resides. Said application will need to be submitted within 2 months after the end of the relevant tax year (e.g. end of February of the following year for individuals, or companies adopting calendar year end).

PwC observation

Companies who have incurred R&D expenses in 2016 eligible for double deduction of R&D expense should submit the necessary application for recognition of intellectual property rights before the end of February 2017. Note that tax incentive for double deduction of R&D expense cannot be used concurrently with R&D tax credit. Taxpayers should choose whichever scheme is more tax efficient.

Amendment to “Fixed Assets Depreciation Table” (Tax Ruling No.10604512060)

The Fixed Assets Depreciation Table (“Table”) has been amended, and will be applicable for tax returns filed in May 2017.

● Key amendments

1. A new category was added: “Sensor processing, internet transmission and information processing equipment”. This includes cloud computing equipment, internet transmission equipment, and various sensor application equipment.

2. Additional line items were added: such as steel reinforced buildings, solar energy generation systems, automated storage and retrieval systems and packaging equipment were added.
 3. The useful life of industrial robots was decreased from 4 years to 2 years.
- **Effective dates of the amended Table**

Acquisition or construction date of fixed asset	Applicability of the amended Table
December 31, 2015 and before	<p>For assets with remaining useful lives, the remaining depreciable years may be recalculated based on the following formula as of 2016 (or the first month of fiscal year 2016 for companies using non-calendar year end) :</p> <p>Adjusted remaining depreciable years = A* B/C</p> <p>A: Depreciable years under amended Table B: Remaining depreciable years using pre-amended Table C: Total depreciable years using pre-amended Table</p> <p>E.g. The total depreciable years for industrial robots before the amendment was 4 years. For a robot that has been depreciated for one year by the end of 2015, the calculation is as follows: The adjusted remaining depreciable years = $2 \times 3/4 = 1.5$ years</p>
January 1, 2016 and thereafter	The current amended Table applies.

PwC observation

Companies should examine their existing fixed assets to determine whether the amended Table provides for lower useful lives, which can accelerate the recognition of depreciation expense, and result in less taxes payable in earlier years. Companies can adopt the amended Table’s depreciable years for fixed assets depreciation without approval from the tax authority.

New VAT regime on cross-border B2C electronic service will come into force in May 2017

The amendment to the Value-Added and Non-Value Added Business Tax Act (“BTA”) was passed by the Legislative Yuan towards the end of 2016, and will come into force beginning May 1, 2017 as announced by the Executive Yuan. Based on the draft Tax Registration Threshold regulations promulgated by the Executive Yuan on February 15, 2017, foreign corporate sellers without a fixed place of business in Taiwan that sell

electronic services to Taiwan consumers will need to perform tax registration, file Value-added Tax (“VAT”) return, and pay corresponding VAT payable if their annual sales exceed the promulgated threshold of TWD 480,000. After the 20 day notice period has passed, the aforementioned draft Tax Registration Threshold regulation will come into force along with the amended BTA on May 1, 2017.

Clarification of Article 33 of the BTA regarding applicability of Tax Ruling No. 780276657 (Tax Ruling No. 10500706630)

Pursuant to Tax Ruling No. 780276657 issued on September 9, 1989, if a company leases real estate and is obliged to pay utility expenses incurred during the lease period per the lease agreement, even though the receipts obtained are in the name of the lessor, said receipts can be used by lessee to credit input VAT on utility expenses paid by lessee.

However, beginning from July 2018, if the lessee wishes to credit input VAT paid on public utility expenses, the lessee will need to obtain Government Uniform Invoices (“GUI”) addressed to itself, with the lessee’s address and Company ID shown on the GUI in accordance with Article 33 of the BTA.

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