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## ***Taiwan Tax Update***

*October 2015*

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### **Transfer pricing audit for Fiscal Year 2014 will soon begin**

National Taxation Bureaus governed by the Ministry of Finance (“MOF”) will soon conduct 2014 transfer pricing audits. For profit-seeking enterprises who have not disclosed related party transactions in accordance with relevant tax regulations, who have not prepared transfer pricing reports and other documentation, or who have not complied with relevant transfer pricing regulations, if they voluntarily file supplementary tax declaration and make supplementary payment covering the additional tax due before being reported by an informant or being investigated by the National Taxation Bureaus, relevant penalties can be waived.

The MOF has indicated that their primary targets will be multinational enterprises that choose to reduce the overall tax burden of the group via tax systems in different countries, international tax planning, or enterprises that attempt to reduce their Taiwan tax liability by shifting business profits to countries with lower tax rates. Enterprises with the following criteria will have a higher chance of being selected for audit:

1. Where reported gross profit margin, operating profit margin, and net profit margin are lower than similar businesses in the same industry.
2. Where a Taiwanese profit-seeking enterprise declares losses but its group is in a profitable position globally, or the profits declared by the Taiwanese profit-seeking enterprise is significantly lower than other affiliates within the group.
3. Where there was significant fluctuation in declared profits during the past three consecutive years (the year when related party transactions occurred and two years preceding it).
4. Where information of related party transactions are not disclosed using prescribed formats, or transfer pricing documentations are not prepared and maintained.
5. Where there are significant and frequent transactions with related parties located in tax haven or low tax jurisdictions.
6. Where there are significant and frequent transactions with related parties that enjoy tax incentives.
7. Where there is any non-arm’s length arrangement to avoid or reduce tax liability

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