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## **Taiwan Tax Update**

*February 2016*

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### **Increased deduction of expenses as tax incentives granted shall be added back to basic income of profit-seeking enterprise**

The Ministry of Finance announced on January 27, 2016 that the increased deduction of R&D expenses and salary expenses according to the Statute for Industrial Innovation (“Innovation Statute”) and the Statute for Development of Small and Medium Enterprises (“SME Statute”) is a tax incentive, which is utilized to offset current taxable income, and therefore, the increased deduction should be added back to basic income of profit seeking enterprises according to Article 7 of the Income Basic Tax Act when filing annual corporate income tax (“CIT”) returns. The detail of the announcement is illustrated as follows:

Source	Amount of increased expense deduction	Applicable year
Article 36-2 of SME Statute	Additional 30% deduction for qualifying salaries paid to newly-hired employees who are R.O.C. citizens.	2015
	Additional 50% deduction for qualifying salaries paid to newly-hired employees who are R.O.C. citizens under the age of 24.	2016
	Additional 30% deduction for qualifying salary increase given to entry level employees who are R.O.C. citizens.	2016
Article 12-1 of Innovation Statute	Double deduction of qualified R&D expenses from income obtained from intellectual property.	2016

#### **PwC Observation:**

Assuming the increased deduction of expenses of Company A in accordance with the Innovation Statute and the SME Statute is TWD 1.2 million, depending on the amount of basic income calculated based on different levels of taxable income, the final income tax payable will vary. Examples are illustrated below:

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**Newsletter - Taiwan Tax Update**

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<b>Scenario</b>	<b>Taxable income under CIT system</b>	<b>CIT payable (17%)</b>	<b>Basic income (after deduction of 0.5M )</b>	<b>Income basic tax ("IBT") payable (12%)</b>	<b>Additional income tax payable (Excess of IBT over CIT)</b>
1	-	-	700,000	84,000	84,000
2	1,000,000	170,000	1,700,000	204,000	34,000
3	4,000,000	680,000	4,700,000	564,000	-

According to the above illustration, under Scenario 1, although the corporate income tax payable is nil after the increased expense deduction is applied, Company A should still pay IBT payable of TWD 84,000 based on the IBT calculated. Under Scenario 2, although corporate income tax payable of TWD 170,000 is due, since IBT payable is larger than CIT payable, additional IBT payable of TWD 34,000 will be due.

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## **Newsletter - Taiwan Tax Update**

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## Appendix

日期文號： 中華民國105年1月27日台財稅字第10504510120號公告

主 旨： 公告新增依中小企業發展條例第36條之2第1項至第3項規定，增僱本國籍員工與調高本國籍基層員工薪資之薪資費用加成減除金額，及依產業創新條例第12條之1第1項規定智慧財產權研究發展支出加倍減除金額，應計入營利事業之基本所得額。

依 據： 所得基本稅額條例（以下簡稱本條例）第7條第1項第10款。

公告事項： 依中小企業發展條例第36條之2第1項規定增僱本國籍員工之薪資費用加成減除金額，自104年度起應計入營利事業之基本所得額；依中小企業發展條例第36條之2第2項規定增僱24歲以下本國籍員工與第3項規定調高本國籍基層員工薪資之薪資費用加成減除金額及依產業創新條例第12條之1第1項規定智慧財產權研究發展支出加倍減除金額，自105年度起應計入營利事業之基本所得額。