

Introduction To Taiwan Tax Rules

Taiwan Pocket Tax Book 2019



FOREWORD

Welcome to Taiwan Pocket Tax Book 2019. This booklet provides quick and easy access to information on various tax rules in Taiwan. The information in this booklet is based on current taxation regulations and practices as at 1 January 2019 (unless otherwise specified).

This booklet is intended to provide a general guide and is not aimed to provide a comprehensive understanding of Taiwan's prevailing tax system. Readers should not act on the basis of this publication without seeking formal professional advice.

We have also included for your reference a list of our key specialists at the back of this book as a quick guide to help you locate the right person for your questions.

We hope you find this book useful and handy!



Jason Hsu

Leader – Tax Services

PwC Taiwan

January 2019

CONTENTS

FOREWORD	1
CORPORATE INCOME TAX	5
Taxpayers and tax rates	5
Corporate tax system	6
Tax return filing requirements	16
Withholding taxes	23
Double taxation agreements	26
Withholding taxes under double taxation agreements	28
Tax incentives	31
Transfer pricing rules	33
Alternative minimum tax	40
Taxation of shareholders	42
PERSONAL INCOME TAX	44
General overview	44
Residency	45
Personal income tax rates	45
Taxable personal income	47
Exempt income	50
Capital gains	53
Dividends	55
Exemptions and deductions	56
Exemptions	57
Standard deductions	59
Itemised deductions	60
Special deductions	62
Basic Living Expense Difference	64
Filing	64
Payment of taxes	66
Penalties	66
Alternative minimum tax	67

VALUE ADDED TAX (VAT)	68
General overview	68
Taxpayers	69
VAT rate	70
GBRT rates	72
Exempted goods and services	73
Filing and payment of taxes	77
SPECIFICALLY SELECTED GOODS AND SERVICES TAX (LUXURY TAX)	78
General overview	78
Tax rates	79
Exempted goods	80
Filing and payment of taxes	80
SECURITIES TRANSACTION TAX	81
General overview	81
Tax rates	81
STAMP TAX	82
Scope of taxation	82
Tax rates	84
CUSTOMS DUTIES	85
Duty rate	85
Customs duties exemptions	86
Declaration	86
COMMODITY TAX	87
General overview	87
Commodity tax exemptions	88
Filing and payment of taxes	89
Commodity tax rates	90
PwC in TAIWAN	92

Significant changes in Taiwan tax laws:

CIT rate increased to 20%, profit retention tax reduced to 5%, dividend withholding tax increased to 21%

Announcement of the new income tax and VAT mechanism for cross-border sales of B2C services

Three tier transfer pricing documentation requirement to take effect starting from 2017

CORPORATE INCOME TAX

Taxpayers and tax rates

Corporate income taxpayers are classified as follows:

Profit-seeking enterprises: This refers to enterprises operated by public, private, or joint public and private interests that have a registered business name or a place of business and are organised in the form of a sole proprietorship, partnership, company, or any other form of organisation. Profit-seeking enterprises in Taiwan are divided into two categories:

- Profit-seeking enterprises with head offices within Taiwan; and
- Profit-seeking enterprises with head offices outside Taiwan but having income derived from sources in Taiwan.

Permanent establishment (PE): For Taiwan income tax purposes, this refers to a foreign enterprise which has a fixed place of business (FPOB) or business agent (BA) in Taiwan.

Corporate tax rates

With effect from 1 January 2018, profit-seeking enterprises are taxed at the following:

Taxable income	Tax rate
Up to NT\$120,000	0%
NT\$120,001 and above	20%

In addition to regular tax calculations, Taiwan profit-seeking enterprises and foreign companies with a PE in Taiwan are subject to a separate alternative minimum tax (AMT) calculation in accordance with the Income Basic Tax Act.

In addition, a 5% profit retention tax is imposed on any current earnings that remain undistributed by the end of the following year.

Please note, for profit seeking entities with less than NT\$500,000 in taxable income, the corporate tax rate is 19% in 2019, and 20% in 2020.

Corporate tax system

Resident enterprises are taxed on worldwide income. Non-resident enterprises are taxed on income derived from Taiwan sources.

Taxable income

The taxable income of a profit-seeking enterprise is calculated from net income, which is defined as gross annual revenues after the deduction of costs, expenses, losses and taxes (except for income tax). Except for certain exempt items, income from all sources (business income, rent, interest, royalties, and capital gains realised from property sales, etc.) is subject to income tax. To determine a company's taxable income, its accounting income is adjusted by taking into account non-taxable income, non-deductible expenses, allowable provisions, and losses carried forward, etc.

Certain items of income are not included in taxable income. Currently, gains from sales of Taiwanese securities and futures are exempt from regular income tax. Also, for land purchased prior to 2 January 2014, or land purchased on or after 2 January 2014 but before 1 January 2016 and held for more than two years, disposal gain is exempted from regular income tax. Nevertheless, losses and expenses attributable to afore-mentioned tax exempted income are accordingly not tax deductible.

However, Taiwan resident companies and foreign companies with a PE in Taiwan are required to include any tax exempt gains arising from securities and futures transactions in their AMT calculation in accordance with the provisions of the Income Basic Tax Act.

Exempt income

Categories of income exempt from income tax include, but are not limited to:

- Capital gains derived from securities and futures transactions;
- Dividends received by a Taiwan company from another domestic profit-seeking enterprise;
- Certain technical service fees received by foreign entities for construction of plants, subject to government approval;
- Operating income obtained within Taiwan by a foreign enterprise engaged in international transportation, provided reciprocal treatment is granted by the home country of the foreign enterprise to a Taiwan-based transportation enterprise operating in its territory.

Capital gains derived from sale of securities and futures transactions are exempt from regular income tax assessment.

New income tax system for provision of cross border electronic services after 1 January 2017

A new tax system has been implemented to address income tax treatment of remuneration derived by foreign enterprises from provision of cross border electronic services to Taiwanese consumers (including individuals, profit-seeking enterprises and organizations). This new tax system provides rules governing determination of Taiwan sourced revenues, calculation of taxable income, and methods of taxation, and is effective from 1 January 2017 onwards. Depending on the business model and situation of the taxpayer, costs/expenses can be deducted and the taxable income can be further reduced via use of a "contribution ratio". The income tax payable shall be withheld at source, if applicable; or the foreign tax payers shall, by itself or appoint a tax agent, file income tax return and pay taxes due before the stipulated deadline.

New tax system for land and building sales after 1 January 2016

The ITA was amended in June 2015 to tax on a consolidated basis of actual gains from property transactions based on combinations of buildings and land (new real property tax regime). The new real property tax regime has taken effect on 1 January 2016 and is applicable to all properties acquired on or after 1 January 2016, as well as those bought on or after 2 January 2014 if held for less than two years. The taxable base is the market value of the properties reduced by related costs, expenses, and the increase in government-assessed land value for land value incremental tax (LVIT) purposes. A regular corporate income rate of 20% will apply on Taiwanese corporate taxpayers; whereas, a tax rate of 35% or 45% will apply on profit-seeking enterprises with foreign head offices located outside of Taiwan (i.e. Taiwan branch), depending on whether the property is held for more than or less than one year.

LVIT remains unchanged by the implementation of the new real property tax regime on property transactions. The total amount of land value increment is deducted from real estate transaction income to avoid double taxation. The old property tax regime still applies to properties purchased prior to 2 January 2014, or those purchased after 2 January 2014 if held for more than two years, where only gain from sale of buildings is subject to corporate income tax assessment, and LVIT applies to increment in government-assessed value of land instead.

A summary of the new Real Property Tax regime for profit-seeking enterprises is as follows:

Item	Description
Taxation Scope	<ul style="list-style-type: none"> • Sales of any of the following after 1 January 2016 will be subject to the new real property tax regime, except where various criteria are met (please refer to “Exclusions” section below): <ul style="list-style-type: none"> – Building – Building and land where the building is situated thereon – Land eligible for being granted a construction permit. • Exclusions: If the building or land is sold after 1 January 2016, and meets any of the following criteria, the sale will be subject to the old taxation regime instead: <ul style="list-style-type: none"> – Building or land was acquired prior to 2 January 2014 – Building or land was acquired on or after 2 January 2014, but before 1 January 2016, and has been held for over two years

Item	Description
Tax Base	Proceed from sale of building and land minus: <ul style="list-style-type: none"> • Costs • Expenses • Total amount of land value increment calculated based on the Land Tax Act, i.e. tax base of LVIT
Tax Rate	<ul style="list-style-type: none"> • Taiwanese profit-seeking enterprises: 20% (regular corporate income tax rate, same as current taxation regime) • Profit-seeking enterprises with foreign head-offices located outside of Taiwan, i.e. Taiwan branch: <ul style="list-style-type: none"> – Building/land held for less than one year: 45% – Building/land held for over one year: 35%
Taxation Method	<ul style="list-style-type: none"> • Taiwanese profit-seeking enterprises: Combined with annual corporate income tax return filings (same as old taxation regime) • Foreign head-offices of Taiwan branches: Tax of the foreign head-office should be calculated separately by the Taiwan branch according to the prescribed tax rate, and reported within the Taiwan branch's annual corporate income tax return

Deductions

In general, expenses or losses incurred in the ordinary course of business are tax deductible, except where these are not substantiated by required and adequate documents. For example, for domestic purchases, government uniform invoices (GUIs) are the predominant form of documentation necessary to support deductions of local expenditures. Except for small- scale business enterprises whose monthly sales do not exceed NT\$200,000 and certain professional

practitioners, all profit-seeking enterprises are required to use GUIs.

Non-deductible items

Expenses and losses incurred that are unrelated to the operations of a company are not tax deductible. Except for provisions for labour retirement funds, or allowances for doubtful accounts, etc. as specified in the provisions of related laws or specially approved by the Ministry of Finance (MOF), unrealised expenses and losses may not be claimed as tax deductible expenses. The deductible provisions and allowances mentioned above must be recorded on the books at the balance sheet date in order to qualify for deductibility, i.e. these provisions cannot be made off the books for tax purposes only.

Thin capitalisation rule

From 2011 onwards, deductible interest expense on inter-company loans is capped at a debt-to-equity ratio of 3:1 as determined by the MOF. Interest expense on inter-company loan exceeding the stipulated threshold will be disallowed for tax purposes.

The thin capitalisation rule generally applies to profit-seeking enterprises, except banks, credit cooperatives, financial holding companies, bills finance companies, insurance companies and securities companies.

Interest expense on inter-company loans under the following scenarios are excluded from the intercompany

debt to equity ratio calculation (including thin capitalisation safe harbour rules):

- Where the annual aggregate amount of net sales and non-operating income reported in the corporate income tax return is less than or equal to NT\$30 million.
- Where both “total interest expense” and “interest expense from inter-company debt” reported in the corporate income tax return are less than or equal to NT\$4 million.
- Where tax loss has been incurred prior to the deduction of interest expense, and such loss is not carried-forward as provided under Article 39 of the ITA.
- Where the interest expense is capitalised or treated as deferred expense pursuant to tax regulations, the underlying inter-company debt which is separately identifiable shall be excluded from the inter-company debt to equity ratio calculation.
- Loans provided by third-party financial institutions but guaranteed by related parties due to request from the said financial institutions may be excluded from the inter-company debt to equity ratio calculation if the enterprise can present evidential documents substantiating that such loans can be completely guaranteed by self-owned assets of the enterprise. Also, if the loan are guaranteed by the “Small and Medium Enterprise Credit Guarantee Fund” or the enterprise and its Taiwanese related parties are co-debtors of the underlying loans, which are secured

by the co-debtors' self-owned assets and guaranteed by the co-debtors, such loans shall be excluded from inter-company debt to equity ratio calculation.

Tonnage tax system

From 2011 onwards, a qualifying enterprise engaged in maritime transportation having its head office in Taiwan may apply to rebase the taxation of their maritime transportation income from the regular income tax system to a lump sum tax calculated on the net tonnage of their fleet.

Once the application is approved, the qualifying enterprise must remain under the tonnage tax system for ten consecutive years and cannot elect to switch to the regular income tax system at its discretion. Furthermore, loss carry forwards and tax incentives are not eligible under the tonnage tax system.

The tonnage tax will be computed with reference to an assumed “daily profit” multiplied by 365 days and the prevailing corporate income tax rate (currently 20%). The “daily profit” is assessed as follows:

Net tonnage	Daily profit
For each complete 100 net tons up to 1,000	NT\$67
For each complete 100 net tons from 1,001 to 10,000	NT\$49
For each complete 100 net tons from 10,001 to 25,000	NT\$32
For each complete 100 net tons above 25,000	NT\$14

The tonnage tax will only apply to income from maritime transportation. However, if the qualifying enterprise has income other than income derived from maritime transportation, such income will still be taxed pursuant to the relevant rules of the ITA.

Tax return filing requirements

The tax year in Taiwan generally runs from 1 January to 31 December. Profit-seeking enterprises must obtain prior approval to adopt a fiscal year other than a calendar year. Tax payments are filed on a self-assessment basis.

All Taiwan resident profit-seeking enterprises, as well as foreign companies with a PE in Taiwan, must file annual returns with the tax authority no later than five months after the end of the tax year (no extension is permitted). Penalties are imposed for late filing and failure to file a return, and interest is charged on late payments.

The income tax returns of a business enterprise must include the forms prescribed by the National Tax Administration (NTA) and relevant supporting documents.

Types of returns

Profit-seeking enterprises must file one of the following income tax returns:

- Blue return - used by profit-seeking enterprises duly authorised by the tax authorities and designed to encourage honest reporting of their income.

- Ordinary return - used by all profit-seeking enterprises not entitled to use a blue return.

Taxpayers that file blue returns are able to carry forward losses for a period up to ten years even without a CPA's certification of their income tax returns. Additionally, the tax limit for entertainment expenses is higher than that for an ordinary return.

Certification

Submission of audited financial statements with tax returns is not required. Certain companies must have their income tax returns certified by licensed CPAs, including:

- Banks, credit cooperatives, insurance, investment trust companies, short term bill and finance companies, capital leasing companies, and companies engaged in securities and futures;
- Public companies;
- Companies that have received approval for corporate income tax exemption in accordance with the Statute for Encouragement of Investment or the Statute for Upgrading Industries and have annual net revenues and non-operating income in excess of NT\$50 million;
- Companies that have filed a consolidated income tax return in accordance with the Financial Holding Company Act or Business Mergers and Acquisitions Act; and

- Companies other than those listed above whose annual net revenues and non-operating income are in excess of NT\$100 million.

In addition, taxpayers may volunteer to have their income tax returns certified. The following benefits are offered to profit-seeking enterprises that have their tax returns certified by licensed CPAs:

- They may receive all benefits given to profit-seeking enterprises filing a blue return, including carrying forward prior year tax losses.
- The tax office will first direct inquiries to the CPA who certified the return and review the CPA's working papers rather than the company's records.

If a non-resident corporate taxpayer has or is deemed to have a PE within the territory of Taiwan, the PE will need to keep separate accounting books as well as file income tax returns and pay income tax on the non-resident corporate taxpayers' behalf.

Assessments

Taiwan does not have a fixed audit cycle. A tax audit can be carried out any time prior to the expiration of the statute of limitation mentioned below. Companies may be selected for audit based on certain criteria.

The tax authorities conduct tax audits by examining the tax returns, accounting books and supporting documents according to the "Assessment Rules for Income Tax

Returns of Profit-Seeking Enterprises”. During a tax audit, the taxpayer may be called upon to explain questionable items and present additional supporting documents to the tax authorities. If the tax authorities come up with a different assessment, they will issue a formal assessment notice to the taxpayer, who then has the option of paying the tax as assessed or undergoing a tax appeal procedure provided under the relevant tax regulations.

Some of the common areas challenged or audited by the tax authority include: management fees allocated from a foreign parent company or affiliates; amortisation of business rights and goodwill; eligibility for R&D tax credits; and compliance regarding business tax, transfer pricing and WHT.

Assessment period

If a taxpayer has filed an income tax return within the time limit prescribed, and has not evaded tax by fraud or any other improper means, the tax authority may examine the return at any time within five years after the filing date, even if it had already confirmed the assessment. This period can be extended by two additional years in cases of fraudulent filing.

Consolidated returns

Consolidated returns may be filed by qualifying group enterprises under the Business Mergers & Acquisitions Act and the Financial Holding Company Act. The Taiwan parent company is eligible to file a consolidated return if

it continuously holds over 90% of the outstanding issued shares of its domestic subsidiaries for 12 months in a tax year.

Except for afore-mentioned situations, group taxation is not permitted. Consequently, the losses of one affiliate cannot be used to offset the profits of another.

Enterprises with foreign branches should include branch operations in their returns. However, credit for income tax paid on income derived from sources outside Taiwan can be claimed to the extent allowed by the tax laws, but normally not to exceed the additional income tax payable in Taiwan as a result of inclusion of this offshore income.

Payment

Tax is paid on a self-assessment basis in two instalments. A company with a calendar year end must pay provisional income tax equal to 50% of the tax liability declared for the previous year between 1 September and 30 September. However, if the taxpayer meets certain requirements, it can opt to pay the provisional tax based on its taxable income for the first six months of the current tax year. The second payment is made when filing the annual return in the fifth month after the end of the tax year. The return is then reviewed by the tax authority and a final assessment is issued.

Penalties are imposed for late filing and failure to file a return. The taxpayer is also required to pay interest on any unpaid taxes from the date following the original due date to the date of payment. The interest charge is based on

the prevailing one-year time deposit interest rate set by the Directorate General of the Postal Remittances & Savings Bank each year.

Branch versus subsidiary

In general, taxable profits of branches and subsidiaries of foreign companies are computed in a similar fashion. However, whilst withholding taxes are levied on dividends distributed by subsidiaries, there is no withholding tax on the remittance of after-tax profits by a branch to its foreign head office. Effective starting 1 January 2018, the withholding tax levied on dividends paid to foreign shareholders is 21% absent any tax treaties. However, please note that a branch cannot enjoy any tax incentives.

Losses

As a general rule, companies which keep a complete set of accounting books and records that are in order, and use blue returns or have their returns certified by a CPA may carry losses forward for ten years. Losses may not be carried back.

Substance-over-form rules

Although Taiwan does not have a codified general anti-tax avoidance rule, Taiwan has formalised the concept of substance-over-form under Article 12-1 of the Tax Collection Act, where the economic substance of the transaction shall be considered.

The onus is on the tax authorities to ascertain the facts and substance of the transaction, as well as its tax effect. The taxpayer, on the other hand, is obligated to provide relevant assistance required by the tax authorities.

Controlled foreign company (CFC)

On July 27, 2016, the Controlled Foreign Company (CFC) rules have been announced by the President; however, the date of implementation still has to be determined by the Executive Yuan.

Currently, profits of overseas subsidiaries held by Taiwan companies are not subject to 20% CIT in Taiwan until such profits are repatriated to Taiwan as dividend income. However, under the new CFC mechanism expected to take effect in the future, qualified investment income will be deemed distributed and taxable in Taiwan in advance, even if profits have not actually be distributed.

Place of effective management (PEM)

On July 27, 2016, the Place of Effective Management (PEM) rules have been announced by the President; however, the date of implementation still has to be determined by the Executive Yuan.

Under this new tax regime, if a foreign company meets all three criteria triggering PEM definition, including:

- Decision making location;
- Record keeping and maintenance location; and
- Actual operating location are all in Taiwan,

the foreign enterprise will be deemed as having its head office in Taiwan, and will be subject to tax assessment in accordance with ITA and other tax regulations. A foreign enterprise may voluntarily apply to be subject to the PEM taxation mechanism, or the tax authorities may determine whether PEM taxation mechanism should apply after conducting appropriate audits.

Withholding taxes

Withholding taxes on wages, interest (paid to non-financial institutions), rentals, commissions, royalties, cash awards, and professional fees, etc. must be paid to the tax authorities within ten days after the close of the month in which the payment was made to resident individuals or enterprises.

The withholders should prepare withholding certificates and submit them to the collection authority for verification by the end of January of the following year. If the taxpayer is not a resident individual or is a foreign enterprise with no PE in Taiwan, the tax withholder should submit the taxes withheld and prepare the withholding certificates within ten days from the date the payment is made.

The following table summarizes withholding tax rates of key income items in Taiwan.

Type of income	Resident individuals (%)	Resident companies (%)	Non-resident individuals and companies (%)
Dividends	N/A	N/A	21
Salaries and wages	5 ^(a)	N/A	18
Commissions	10	N/A ^(b)	20
Rentals	10	N/A ^(b)	3 ^(c) , 20
Interest	10	10	15, 20 ^(d)
Royalties	10	N/A ^(b)	0, 20 ^(e)
Technical fees	10	N/A	0 ^(f) , 3 ^(g) , 20
Prizes/Awards ^(h)	10, 20	10, 20	20
Professional fees	10	N/A	20

Notes:

- (a) Alternatively, the total taxable salaries could be withheld in accordance with the Regulations Governing the Withholding of Tax on Wages, where the withholding rate will depend on the number of dependents and salary level.
- (b) Commissions, rentals, and royalties received by resident enterprises that issue GUIs are exempt from withholding tax.
- (c) A 3% withholding tax may be applicable to rental of machinery and equipment paid by a Taiwan company to a foreign enterprise having no PE in Taiwan, if pre-approval is obtained from the tax authority.
- (d) For non-resident enterprises, a 15% withholding tax applies to interest income derived from short-term bills, securitised certificates, corporate bonds, government bonds or financial debentures, as well as interest derived from repurchase transactions involving these bonds or certificates. The rate in all other cases is 20%, unless reduced under a tax treaty.
- (e) Royalties received by foreign enterprises that are specially approved by the government are exempt from income tax.

- (f) Technical service fees received by foreign enterprises in relation to the construction of factories or power plants and approved by the government are exempt from income tax.
- (g) A 3% withholding tax may be applicable for technical service fees paid by a Taiwan company to a foreign enterprise with no PE in Taiwan, if pre-approval is obtained from the tax authority.
- (h) For prizes or awards from contests and games won by chance, the withholding tax rate is 10% for resident individuals and enterprises and 20% for non-resident individuals and enterprises. However, cash awards less than NT\$2,000 from lottery tickets issued by the government are not subject to withholding tax. Whereas, cash awards more than NT\$2,000 from lottery tickets issued by the government are subject to 20% withholding tax. This applies regardless whether resident or non-resident individuals and enterprises are involved.

According to the MOF “Guidelines For Determining Taiwan Sourced Income under Article 8 of the Income Tax Act”, a foreign enterprise with no PE in Taiwan but receiving Taiwan- sourced income from service fees, rental income, business profits, awards/grants and other income which are subject to withholding tax may appoint a tax agent in Taiwan to claim a tax deduction for costs and expenses incurred (supported by evidentiary documents). The foreign enterprise with no PE may further apply for a tax refund within five years from the payment date.

Foreign operations

Income tax is levied on the total income of profit-seeking enterprises that have their head offices in Taiwan, regardless whether that income was derived inside or outside of Taiwan. If a company pays income tax on income derived outside of Taiwan by the foreign branch in accordance with the tax laws of the country from which

that income was derived, the foreign income tax paid may be deducted from its profit-seeking enterprise income tax, provided that such deductions cannot exceed the amount of tax which, if computed at the applicable domestic tax rate, is increased by the inclusion of income from abroad. Any profit-seeking enterprise whose head office is outside of Taiwan but which maintains a fixed place of business or a business agent in Taiwan must pay income tax on income derived from sources in Taiwan.

Double taxation relief

Certain taxes imposed by foreign governments on income recognised by a domestic taxpayer are allowed as a credit against income taxes to be paid in Taiwan. Credit for foreign taxes will be allowed provided the domestic taxpayer can present evidence of the tax payment from the tax authorities of the foreign government, and evidence of attestation by the Taiwanese diplomatic representative office or other approved organisation in the foreign country.

Double taxation agreements

As of 31 December 2018, Taiwan has concluded 32 effective double taxation agreements (DTAs) with countries around the world, which generally follow the Organisation for Economic Co-operation and Development (OECD) Model Tax Convention and cover corporate and individual income tax. It has also concluded 13 international transportation income tax agreements.

Taiwan and China have sealed a cross strait tax agreement on 25 August 2015. The cross strait tax agreement will become effective after it has been reviewed and approved by Taiwan Legislative Yuan. As China is Taiwan's biggest trading partner and investment destination, the cross strait tax agreement will have a significant impact on Taiwanese and Chinese companies investing and conducting business across the Taiwan Strait.

A tax treaty with the Czech Republic has been signed on 12 December 2017, however the effective date will be determined after Taiwan and the Czech Republic have completed necessary domestic procedures.

The MOF issued the Assessment Rules Governing Applicability of Double Taxation Agreements (DTA Assessment Rules) to place emphasis on the substantive purpose behind transactions. Tax reduction benefits or exemptions provided under DTAs will only be granted to the actual beneficial owner of the income.

On June 25, 2018, the MOF further promulgated "Directions Governing Application of Mutual Agreement Procedures of Agreements for the Avoidance of Double Taxation with Respect to Taxes on Income" (MAP Directions) to standardised approach to the provision on Mutual Agreement Procedure (MAP) as prescribed in current effective DTAs. The MAP Directions provide scope of applying MAP, application requirements, application deadline, and implementation of resolution.

Withholding taxes under double taxation agreements

Taiwan's WHT rates on dividends, interest and royalties may be reduced if the income recipient is a tax resident of one of the DTA countries and the agreement provides for a reduced rate, as shown below. The recipient must provide relevant supporting documents for the review and approval of the tax authority.

Country	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries	21	15, 20 (a)	0, 20 (b)
Australia	10, 15 (c)	10	12.5
Austria	10	0, 10 (d)	10
Belgium	10	10	10
Canada	10, 15(p)	0, 10(q)	10
Denmark	10	10	10
France	10	10	10
Gambia	10	10	10
Germany	10, 15 (e)	0, 10, 15 (f)	10
Hungary	10	10	10
India	12.5	10	10
Indonesia	10	10	10
Israel	10	7, 10 (g)	10
Italy	10	10	10
Japan	10	0, 10(r)	10
Kiribati	10	10	10
Luxembourg	10, 15 (h)	0, 10, 15 (i)	10
Macedonia	10	10	10

Country	Dividends (%)	Interest (%)	Royalties (%)
Malaysia	12.5	10	10
Netherlands	10	10	10
New Zealand	15	10	10
Paraguay	5	10	10
Poland	10	0, 10(s)	3, 10(t)
Senegal	10	15	12.5
Singapore	40 (j)	Not prescribed	15
Slovakia	10	10	5, 10 (k)
South Africa	5, 15 (l)	10	10
Swaziland	10	10	10
Sweden	10	10	10
Switzerland	10, 15 (m)	10	10
Thailand	5, 10 (n)	0, 10, 15 (o)	10
United Kingdom	10	10	10
Vietnam	15	10	15

Notes:

- (a) The 15% rate applies to interest paid to a non-resident on bonds, short-term bills, certificates, and interest derived from repurchase transactions for these bonds or certificates. The rate in all other cases is 20%.
- (b) Royalties paid to a foreign enterprise for the use of certain intellectual property rights may be exempt from withholding tax if approved in advance by the competent authority. The rate in all other cases is 20%.
- (c) The 10% rate applies where dividends are paid to a company (other than a partnership) holding directly at least 25% of the capital of the company paying the dividends. The 15% rate applies to dividends paid in all other cases.

- (d) The 0% rate applies to interest paid on loans granted, guaranteed or insured by an approved financial institution of the other territory for the purpose of promoting exports and on all loans between banks; otherwise, the rate is 10%.
- (e) The rate on dividends is 10%, except in the case of certain real estate investment companies which are subject to a 15% rate.
- (f) The 0% rate applies to interest paid to public institutions of the other territory. The 15% rate applies to interest received by a real estate investment trust or a real estate asset trust; otherwise, the rate is 10%.
- (g) The 7% rate applies to interest paid on bank loans; otherwise, the rate is 10%.
- (h) The 15% rate applies to dividends where the recipient is a collective investment vehicle in the other territory and treated as a body corporate in that other territory; otherwise, the rate is 10%.
- (i) The 0% rate applies to interest on loans between banks; a 15% rate applies where the recipient is a collective investment vehicle in the other territory and treated as a body corporate in the other territory; otherwise, the rate is 10%.
- (j) The withholding tax rate on dividends paid to the recipient and the corporate income tax payable on the profits of the investee company may not exceed 40% of the taxable income out of which the dividends are declared.
- (k) The 5% rate applies to usage of, or certain right to use industrial, commercial, or scientific equipment; otherwise, the rate is 10%.
- (l) The 5% rate applies where dividends are paid to a company holding directly at least 10% of the capital of the company paying the dividends; otherwise, the rate is 15%.
- (m) The 10% rate applies where dividends are paid to a company (other than a partnership) holding directly at least 20% of the capital of the company paying the dividends; otherwise the rate is 15%.
- (n) The 5% rate applies where dividends are paid to a company holding directly at least 25% of the capital of the company paying the dividends; otherwise, the rate is 10%.

- (o) The 0% rate applies to interest paid to the government or the central bank of the other territory. The 10% rate applies to interest received by a financial institution (including an insurance company); otherwise the rate is 15%.
- (p) The 10% rate applies where dividends are paid to a company holding directly or indirectly at least 20% of the capital of the company paying the dividends. The 15% rate applies to dividends paid in all other cases.
- (q) The 10% rate applies to all types of interests; however, tax exemption applies to certain interests paid to public institutions of the other territory or paid in respect of a loan made, guaranteed or insured by certain institutions.
- (r) The 10% rate applies to all types of interests; however, tax exemption applies to certain interests paid to public institutions of the other territory or paid with respect to debt-claims guaranteed, insured or indirectly financed by government institutions.
- (s) The 10% rate applies to all types of interests; however, tax exemption applies to certain interests paid to public institutions of the other territory or paid in respect of a loan granted, guaranteed or insured by certain institutions.
- (t) The 3% rate applies to royalties paid as a consideration for the use of industrial, commercial, or scientific equipment.

Tax incentives

Taiwan offers a variety of tax and non-tax incentives to encourage investment. The main tax incentives are provided under the Statute for Industrial Innovation (SII), which is designed to attract and increase capital investment in Taiwan for R&D innovation and upgrading of Taiwan industries.

The SII provides an income tax credit for innovation-related R&D expenses incurred by Taiwan-based enterprises at their

Taiwan facilities. The Legislative Yuan passed amendments to the SII, with goals to enhance the competitive advantage of domestic industries. The amendments effective from 1 January 2016 to 31 December 2019 allows a company to either credit up to 15% of qualified R&D expenditures against its CIT payable in the current year, capped at 30% of its tax payable for that year, or credit up to 10% of qualified R&D expenditures against its CIT payable in the current year, with unutilised R&D tax credits carried forward for two ensuing years if the 30% cap of the current CIT payable is exceeded. No changes are allowed once the election has been made.

In addition, to facilitate the circulation and application of innovative R&D results, and to promote industrialisation of innovative technologies, where individuals/companies derive income from transfer or license of their self-developed IP, the amendments also allow the individuals/companies to either deduct qualifying R&D expenses of up to 200% (capped at corresponding income received) within the current year or claim R&D tax credits against income tax payable.

Certain tax incentives are provided to investors in prescribed areas, such as science parks, export processing zones, free trade zones, etc. Other tax credits are granted to qualifying companies that invest in specific industries promoted by the government, such as biotech and pharmaceuticals.

Also, the Act for Promotion of Private Participation in

Infrastructure Projects provides tax incentives to encourage private sector investment in government-approved infrastructure and transportation construction projects, including five-year tax holidays and investment tax credits, among others.

Additional tax incentives are available under the Business Mergers and Acquisitions Act, the Financial Institutions Merger Act and other laws and regulations.

Transfer pricing rules

Taiwan's transfer pricing regime adheres to arm's length principles for related-party transactions. The governing rules are set out in "Regulations Governing Assessment of Profit- Seeking Enterprise Income Tax on Non-Arm's Length Transfer Pricing" (TP Assessment Rules), which are based on the OECD transfer pricing guidelines.

The types of transactions governed by the TP Assessment Rules are:

- Transfer or use of tangible or intangible property;
- Rendering of services;
- Use of funds; and
- Other types of transactions assessed by the MOF.

Amendments to Taiwan's transfer pricing rules, announced in March 2015, extend the arm's length application to business restructuring and simplify the application procedures for advanced pricing agreements (APAs). More details are provided in the below sections.

Arm's length principle

Transactions concerning revenue, cost, expenses, profit or loss allocations between an enterprise and other local and foreign businesses that it is associated with, and those between an enterprise and another enterprise by which it is directly or indirectly owned or controlled, must conform to the arm's length principle.

Related-party definitions

The TP Assessment Rules provide specific definitions of related parties. In addition to a 20% equity ownership threshold, the MOF has adopted the “substantive management and control” and “material influence” concepts in defining what constitute a related party.

Previously, the burden of proof in showing that a transaction is not conducted at arm's length rested with the tax authorities. Under the current rules, the burden of proof has been placed on the taxpayer, who is obligated to disclose information on related party transactions and prepare certain documents to comply with the relevant laws and regulations when filing their tax return.

Pricing methods

As an indication, the TP Assessment Rules provide the following applicable methods for pricing the transfer and use of tangible property:

- Comparable uncontrolled price method (CUP);
- Resale price method (RPM);
- Cost plus method (CP);
- Comparable profit method (CPM);
- Profit split method (PSM); and
- Other methods approved by the MOF.

The profit level indicators (PLI) of the CPM include:

- Return on Operating Assets (ROA);
- Return on Sales (ROS);
- Berry Ratio (BR);
- Full Cost Mark-up..

Documentation requirements

The disclosure of related party transactions in annual tax returns and the preparation of transfer pricing reports are required if certain thresholds are met. The following documents should be prepared:

- A comprehensive business overview;
- A description of the organisation structure;
- A summary of related party transactions;
- A transfer pricing report;

- A statement of affiliation (in the case of a subsidiary) and consolidated business report of affiliated enterprises (of a parent company), as stipulated in Article 369-12 of the Company Act; and
- Other documents concerning related parties or controlled transactions that may affect pricing.

The transfer pricing report should include the following items:

- Industry and economic analysis;
- Functional and risk analysis of all the participants in the controlled transactions, including changes in functions and risks before and after business restructuring;
- A description of compliance with the arm's length principle;
- A description of the search for comparables;
- Analysis of whether profit allocation is at arm's length where business restructuring is conducted;
- Description of the selected transfer pricing method and the related comparability analysis;
- Pricing methods adopted by the other related participants; and
- A description of the most appropriate method used to evaluate whether the result of the controlled transactions is at arm's length and also its conclusion, including selected comparables, difference adjustments

and their assumptions, arm's length range, the conclusion of the evaluation, and the transfer pricing adjustment if the controlled transactions are not at arm's length.

In general, all required documents should be provided in Chinese, though English documentation may be acceptable if approved by the tax authorities.

Safe harbour rules

The MOF revised the safe harbor rule in February 2015 to help alleviate taxpayers' compliance costs. Companies which have controlled transactions below certain thresholds may replace their transfer pricing report with other evidentiary documents to prove that the results of such transactions are consistent with arm's length results.

Audit and penalties

Taiwan's tax authority has stepped up the pace of transfer pricing audits in recent years. Companies having significant or frequent controlled transactions with related parties in so-called tax havens or low tax jurisdictions receive particular scrutiny. The types of transactions targeted include tangible goods, intangible property transfers (e.g., royalties), intra-group services and financial transactions.

The tax authorities can adjust the income of taxpayers whose controlled transactions fall outside the arm's length range, and penalties may be imposed for failure to comply with the arm's length principle and documentation requirements.

Advance pricing agreements

An APA is a binding agreement between a taxpayer and the tax authority regarding the adoption of a pricing method to be applied to cross-border transactions between affiliated entities. For enterprises conducting large or complex controlled transactions, an APA can help mitigate transfer pricing risk.

Taiwan's transfer pricing regime provides for both unilateral and bilateral APAs. If the transactions undertaken by a business with related parties satisfy the following criteria, the taxpayer may apply for and establish an APA with the tax administration:

- The total amount of the transactions covered under the APA is at least NT\$500 million, or the annual amount of such transactions is at least NT\$200 million.
- No significant act of tax evasion has been reported in the past three years.
- The required documentation for APA application has been well prepared.
- Other criteria specified by the MOF are satisfied.

Additionally, there is a pre-filing meeting option, under which the tax authority would be required to notify an enterprise within three months of such meeting whether it would formally accept the APA application.

Taxpayers deemed qualified to apply for an APA should file an application before the end of the first fiscal year

to be covered by the APA. The tax authorities will notify the taxpayer in writing within one month whether the application is accepted. Once the application is accepted, the taxpayer must provide all required documents and reports within three month from the date the notification is received.

The prescribed processing time for unilateral APAs is one year, with two extensions of six-month each. There is no deadline for bilateral or multilateral APA cases.

Once signed, an APA is generally valid for a period of between three to five years. An extension of up to five years may be allowed. During the applicable period of the APA, the applicant must submit an annual report on the execution of the APA, along with the income tax return, to the tax authority.

Three tier transfer pricing documentation

Starting from 2017, in addition to the already required TP report, corporations will also need to provide a Master File (MF) and a Country-by-Country-Reporting file (CBCR).

The Master File is to contain information on the corporation's group's value chain analysis, description of intangible assets and financing activities. The threshold for being exempted from needing to prepare a MF is each individual Taiwan local entity's total net operating revenues and non-operating income is less than NT\$ 3 billion, or over NT\$ 3 billion but with total absolute value of cross border controlled transaction(s) amount less than NT\$ 1.5 billion in the current year.

The CBCR file is to contain information relating to the allocation of the corporation's group's profit/loss, resources, taxes paid, and primary activities performed by each entity. The threshold for being exempted from preparing a CBCR file is the corporation's group's consolidated group revenues and non-operating income is less than NT\$ 27 billion (approximately equal to the OECD's threshold of EUR 750 million) in the preceding year.

Alternative minimum tax

Taiwan imposes a so-called alternative minimum tax ("AMT") under the Income Basic Tax Act. There are two AMT systems, one for companies and one for individuals.

The AMT applies to all Taiwan resident companies, as well as foreign companies with a PE in Taiwan, if they earn certain income that is tax exempt, or if their annual basic income (that is, income subject to AMT) exceeds NT\$500,000.

The following entities are not subject to AMT:

- Sole proprietors and partnerships;
- Non-profit organisations;
- Government-owned enterprises;
- Foreign enterprises with no PE in Taiwan; and
- Businesses undergoing a liquidation filing or declared insolvent.

If the regular income tax is greater than the AMT, no special action is required. If the AMT is greater than the regular income tax, taxpayers have to calculate and pay AMT based on the following formulae:

- Income subject to AMT = Regular taxable income + add- back items
- $AMT = (\text{Income subject to AMT} - \text{NT\$}500,000) \times 12\%$

The add-back items include approved exempt income under tax incentive schemes, tax exempt capital gains from securities and futures transactions, and tax exempt offshore branch profits of banking institutions.

Taxation of shareholders

Domestic shareholders

- Dividends

Beginning 1 January 2018, Taiwan no longer operates an imputation system. Imputed tax credits can no longer be used by resident individuals to offset their income tax liabilities.

Dividend distributions between resident companies are exempt from CIT. Dividends received from foreign subsidiaries are taxable for CIT, but tax credits are given for any withholding taxes paid offshore.

- Capital gains

Gains from the sale of Taiwanese securities are exempt from regular income tax assessment. However, companies resident in Taiwan who sell domestic marketable securities have to calculate an income basic tax amount and compare such tax amount with the regular income tax amount, then pay the higher of the two taxes calculated. Please refer to the formulae laid out under “Alternative Minimum Tax” section for more information on the AMT calculations.

Foreign shareholders

- Dividends

For non-resident shareholders (including companies and individuals), tax is withheld at source on dividends distributed by a resident company in Taiwan. The withholding tax rate for dividend payments is 21%, but this may be reduced to between 5% and 15% under certain available double taxation agreements. No withholding tax is imposed on dividends paid to a resident shareholder.

Beginning 1 January 2018, non-resident shareholders may no longer use the profit retention tax as an offset against dividend withholding tax.

- Capital gains

Gains from the sale of Taiwanese securities are exempt from regular income tax assessment for foreign corporate shareholders. However, companies (i.e., foreign companies with a PE in Taiwan) who sell domestic marketable securities have to calculate an income basic tax amount and compare such tax amount with the regular income tax amount, then pay the higher of the two taxes calculated.

Please refer to the formulae laid out under “Alternative Minimum Tax” section for more information on the AMT calculations.

PERSONAL INCOME TAX

General overview

In Taiwan, the taxation of individuals, including foreign nationals, is based on their source of income and residency status.

Individual income tax is levied on the Taiwan-sourced income of both resident and non-resident individuals, unless exempt under the provisions of the ITA and other laws.

Income received for services rendered in Taiwan is considered to be Taiwan-sourced income subject to tax, regardless of whether such income is paid by a local or an offshore employer. However, income received by a non-resident individual for services rendered in Taiwan is not considered Taiwan-sourced income if the total length of the stay in Taiwan does not exceed 90 days in a calendar year, and the compensation is paid by an offshore employer.

The AMT, based on the Income Basic Tax Act, applies to the overseas income of resident individuals, including qualifying expatriates.

The tax year in Taiwan is on a calendar year basis. Individual taxpayers should file an annual income tax return with the Taiwan tax authority before 31 May of the following year, with no extensions allowed.

Residency

An individual is considered a resident in Taiwan for income tax purposes if the individual is domiciled and ordinarily resides in Taiwan; or not domiciled but resides in Taiwan for 183 days or more in a taxable year.

A Taiwanese national with local household registration is considered a non-resident for tax purposes if he/she stays for one day or more but less than 31 days within a calendar year in Taiwan, and his/her centre of vital interest is not in Taiwan.

Foreign nationals staying in Taiwan for less than 183 days in a calendar year are non-tax residents. If a foreigner enters and departs Taiwan several times within a calendar year, the days he/she resides in Taiwan are accumulated.

Personal income tax rates

For a resident individual, the amount of Taiwan income tax due is calculated as a percentage of net taxable income (that is, gross income minus eligible exemptions, deductions and basic living expense difference), less a "progressive difference" for each tax bracket, as illustrated below. The applicable rates range from 5% up to 40% starting from 2018. Between years 2015 to 2017, the applicable tax rates were up to 45%.

Non-resident individuals who reside in Taiwan for less than 183 days in a calendar year are subject to withholding tax at a rate of 18% on wages and salaries, 21% on dividends,

and 20% on commissions, rental income, royalties, professional fees and prizes and awards obtained from contests or lotteries. A 15% withholding tax applies to interest income derived from short-term bills, securitised certificates, corporate bonds, government bonds or financial debentures, and interest from repurchase transactions involving these bonds or certificates. The withholding rate on interest in all other cases is 20%.

The following table summarises personal income tax rates in Taiwan:

	Non-resident	Resident		
Personal exemption	No	Yes		
Deductions	No	Yes		
Tax rates	In general 15% ~ 21%, depending on income type	Progressive tax rates for 2019 tax year		
		Net Taxable Income (NT\$)	Tax Rate (%)	Progressive Difference (NT\$)
		0 ~ 540,000	5	0
		540,001 ~ 1,210,000	12	37,800
		1,210,001 ~ 2,420,000	20	134,600
		2,420,001 ~ 4,530,000	30	376,600
		4,530,001 or higher	40	829,600

Taxable personal income

Resident and non-resident individuals are subject to Taiwan income tax on income earned from work or activities carried out in Taiwan, or other income from sources in Taiwan.

For tax resident individuals, the Taiwan-sourced income of the individual's spouse and qualifying dependents is also included in the taxpayer's total gross income.

Taxable personal income is classified into ten categories: dividend income and profit distributions, professional practitioner income; salaries and wages; interest; rentals and royalties; self-employment income from agriculture, fishing, animal husbandry, forestry, and mining; gains from property transactions (other than land); prizes or awards won from contests, games or lotteries; severance and retirement payments; and other income.

Certain income derived by individuals in Taiwan is subject to WHT at source at various rates based on the recipient's residency status (see page 23). For non-residents, the applicable WHT rates on dividends, interest and royalties may be reduced under a double taxation agreement.

Non-residents staying in Taiwan for no longer than 90 days in a calendar year are not subject to income tax on Taiwan-sourced income paid outside of Taiwan, such as salary remuneration, provided the payment is not charged back to any Taiwanese entity; otherwise, the income is subject to WHT. If the individual received equity income during the tax year, the 90 days rule will not be applicable as the individual should still file a Taiwan individual income tax return to report the equity income in relation to Taiwan.

Employment income

Employment income is generally treated as Taiwan-sourced compensation (including base salary, bonuses, allowances, benefits, etc.), where the individual performs services while physically located in Taiwan. Income tax is computed on gross income and collected through withholding at source if payment is made from Taiwanese enterprise, or recharged and borne by Taiwanese enterprise. The applicable WHT rates for salary income are 5% for resident individuals and 18% for non-residents.

Foreign nationals staying in Taiwan for no longer than 90 days in a calendar year are subject to WHT at a flat rate of 18% on salary income received from a Taiwanese enterprise. However, remuneration paid by a foreign employer with no recharge to Taiwanese enterprise is exempt from Taiwan income tax.

Foreigners staying in Taiwan for more than 90 days but less than 183 days in a calendar year are also subject to a flat 18% tax on remuneration for services rendered in Taiwan, regardless of where the compensation is paid. A tax return should be filed, which should include supporting documents for any salary paid offshore.

Individuals that qualify as Foreign Special Professionals in accordance with the Act for the Recruitment and Employment of Foreign Professionals will be eligible for preferential tax treatment. For Foreign Special Professionals whose annual income exceeds NT\$ 3 million, within 3 years

starting from the tax year in which the individual for the first time stays in Taiwan for 183 days or more, half of the individual's salary income exceeding NT\$ 3 million will not be taxed in Taiwan. The benefit may be deferred for up to 5 years.

Fringe benefits

In general, all remuneration and fringe benefits received by employees for services rendered in Taiwan are considered taxable income. Benefits provided by an employer in the form of cash allowances - such as housing, living, education and transportation allowances - are taxable regardless of their nature.

Benefits provided by an employer are taxable unless the recipient employee qualifies for preferential tax treatment under the "The Scope of Application of Tax Preferences for Foreign Professionals" and such benefits are reimbursed on an actual incurred basis. Certain assignment-related benefits - such as relocation expenses, company-provided housing, company provided rental cars and home leave travel costs - may be excluded from an expatriate's taxable income.

As the taxation of fringe benefits can often be confusing for international assignees, feel free to consult our International Assignment Services team for advice on the particular details of your Taiwan case.

Exempt income

Income which is exempted from income tax includes, but is not limited to the following:

- Compensation for death or injury and that obtained pursuant to the National Compensation Act.
- Pension or compensation for death received in accordance with applicable acts or regulations by the bereaved family of a person who died in performing official duties.
- Payment for special disbursement, allowance in kind or cash in lieu thereof, and housing allowances received from the government by public servants, teachers, military personnel, policemen and labourers; and that portion included in the uniform-scale salary received by employees of state-run organisations representing allowance in kind and housing allowance.
- Compensation payment made under life insurance, labour insurance and insurance for public servants, military personnel and teachers.
- Scholarships and subsidies granted by governments of Taiwan or foreign governments, international institutions, educational, cultural, and scientific research organisations or associations, and other public or private organisations for encouragement of advanced studies, research or participation in scientific and professional training, except for scholarships or subsidies received as remuneration for services rendered to the grantors.

- Income, derived by virtue of office, of foreign diplomatic officials, consular officials and other persons entitled to treatment accordable to diplomatic officials in the service of foreign embassies, legations and consulates in Taiwan.
- Income, derived by virtue of office, of employees, other than diplomatic officials, consular officials and persons entitled to diplomatic treatment, who, being nationals of a foreign country, are employed by the embassy, legation or consulate of their country or by subsidiary agencies thereof in Taiwan; provided that reciprocal treatment is accorded by the foreign country concerned to employees of Chinese nationality employed by the embassy, legation or consulate of Taiwan or by subsidiary agencies thereof, in the foreign country concerned.
- Salaries paid by foreign governmental agencies, organisations or educational and cultural institutions to foreign technicians and professors of universities and colleges for services rendered within Taiwan under technical cooperation or cultural and educational exchange agreements made by and between such foreign governmental agencies, organisations or educational and cultural institutions and those of Taiwan.
- Income earned by an individual from the sale of land acquired prior to 2 January 2014 or acquired on or after 2 January 2014, but before 1 January 2016, which has been held for over 2 years.

- Income earned by an individual from the sales of apparel or furniture for household use.
- Individual income derived from written articles, copyright, musical compositions, musical productions, dramas, cartoons, or remuneration for speeches and lectures on an hourly basis. However, the total amount of such income for the entire year shall not exceed NT\$ 180,000.
- Various payments paid to personnel engaged in handling various kinds of examinations held by governmental agencies or academic organisations as commissioned by such agencies and entrance examinations held by public and private schools of various levels.

Capital gains

Currently, Taiwan does not impose a separate capital gains tax, as all gains, unless specifically exempt by law, are assessed as ordinary income and subject to regular income tax.

Gains from land and property

A new Real Property tax regime was introduced in 2015 and has become effective on January 1 2016. However, the old property tax regime still applies to properties purchased prior to 2 January 2014, or those purchased after 2 January 2014 if held for more than two years, where only gain from sale of buildings is subject to individual income tax assessment, and LVIT applies to increment in government-assessed value of land instead.

The new Real Property tax regime is applicable to all real properties acquired on or after 1 January 2016, as well as those bought on or after 2 January 2014 if held for less than two years. The calculation of capital gain from real property transaction under this new tax system is as follows:

Total Taxable Gain = Total sales price of building and land
– purchase cost – relevant expenses – increment in land value which constitutes tax base for LVIT

For residents of Taiwan, the tax rates for disposal of building and land are as follows:

- For real property owned for less than one year: 45%
- For real property owned for more than one year but less than two years: 35%
- For real property owned for more than two years but less than ten years: 20%
- For real property owned for more than ten years: 15%

However, there is an exemption for capital gain up to NT\$4 million for residents of Taiwan who have met the following criteria:

- The taxpayer or his/her spouse and their underage children have household registration and have lived there for six years consecutively, and have not used the real property for business or for lease;
- If the total taxable gain is less than NT\$4 million, it will be fully exempted. Any portion in excess will be taxed at a flat rate of 10%; and
- This exemption is limited to one time within every six years.

For non-residents of Taiwan, the tax rate for disposal of building and land is as follows:

- For property owned for less than one year: 45%
- For property owned for more than one year: 35%

As gains from real property transaction will be taxed separately, the taxpayer is required to file relevant returns

to the tax office within 30 days from the date the title of the real property is officially transferred to the buyer.

Losses realised from the sale of real property are only deductible against gains originating from disposal of real property in the same tax year. Any remaining losses may be carried forward for two years.

Gains from securities transactions

From January 1, 2016 onwards, capital gains derived from transactions in marketable securities are exempt from income tax.

Dividends

Beginning 1 January 2018, Taiwan no longer operates an imputation system. Imputed tax credits can no longer be used by resident individuals to offset their income tax liabilities.

Individuals with dividend income received from Taiwanese companies can elect to be subject to one of the following two alternatives:

- subject to personal income tax's progressive tax rates with 8.5% of the dividend income available as tax credit, capped at NT\$80,000; or
- dividends separately taxed using flat tax rate of 28%.

In addition, dividends from foreign companies received by resident individuals may be subject to AMT at a rate of 20%.

For non-resident individuals, dividends received from a Taiwan resident company are subject to 21% withholding tax, absent any available tax treaties. This rate may be reduced under certain DTAs. Beginning 1 January 2018, non-resident shareholders may no longer use the profit retention tax as an offset against dividend withholding tax.

Exemptions and deductions

Resident individuals are allowed to claim qualified exemptions and deductions on their tax returns to arrive at net taxable income. These include personal exemptions, standard or itemised deductions, and special deductions. Non-resident individuals are not eligible for any personal exemptions and deductions.

Exemptions

Exemptions are available for a resident taxpayer, his/her spouse and dependents.

Exemption item	Exemption amount per person for tax year 2018	Supporting document*
Taxpayer	NT\$88,000	None
Spouse	NT\$88,000	<ul style="list-style-type: none"> • Basic identity documents, e.g. a copy of passport • A copy of marriage certificate
Children or siblings under 20 years of age, or those exceeding the above age limit, but studying in a school as full-time students and being supported by the taxpayer, being physically and mentally incapacitated, or incapable of earning a livelihood	NT\$88,000	<ul style="list-style-type: none"> • Document(s) of relationship, e.g. copy of birth certificate(s), household registration certificate(s), etc. • Document(s) certifying the children or siblings are supported by the taxpayer / spouse • For children or siblings over 20 years of age: Document(s) certifying incapability of earning a livelihood, e.g. copy of tuition receipt(s), copy of the dependent's student ID, disability certificate(s), etc.

Exemption item	Exemption amount per person for tax year 2018	Supporting document*
Lineal ascendant(s) over 60 years of age, or incapable of earning a livelihood	NT\$88,000	<ul style="list-style-type: none"> • Document(s) of relationship, e.g. copy of the birth certificate of the taxpayer / spouse, household registration certificate(s), etc. • Document(s) certifying the lineal ascendant(s) is (are) supported by the taxpayer / spouse
Lineal ascendant(s) over 70 years of age	NT\$132,000	<ul style="list-style-type: none"> • For lineal ascendants under 60 years of age: Document(s) certifying incapability of earning a livelihood • For lineal ascendants who are over 70 years of age, the taxpayer should provide document(s) proving that the ascendant is alive
Other dependents, either under 20 years of age or over 60 years of age and incapable of earning a livelihood	NT\$88,000	<ul style="list-style-type: none"> • Document(s) of relationship, e.g. copy of birth certificate(s), household registration certificate(s), etc. • Document(s) certifying the dependents are supported by the taxpayer / spouse • For dependents over 60 years of age and incapable of earning a livelihood: Document(s) certifying incapability of earning a livelihood

* The majority of the documents are required for foreign nationals who are deemed resident taxpayers in Taiwan.

Standard deductions

Resident individual taxpayers may elect to claim either a standard deduction or itemised deductions, whichever is higher for income tax calculation purposes. There is no ceiling on the itemised deduction total.

For tax year 2017, the standard deduction is NT\$120,000 for a single individual taxpayer and NT\$240,000 for a married couple filing jointly. Eligibility for and limits on itemized deductions are subject to change, so it is wise to seek up-to- date guidance before filing the return.

Taxpayer status	Deduction amount	Supporting documents
Single taxpayer	NT\$120,000	None
Married, filing jointly	NT\$240,000	A copy of marriage certificate

Itemised deductions

Deduction item	Maximum deduction for 2018	Supporting documents
Charitable donations	Limited to donations to Taiwan-registered non-profit organisations, and deductible up to 20% of annual gross taxable income	Original receipt(s)
Insurance premiums	Limited to NT\$24,000 per person per year for life insurance and labour insurance premiums. There is no ceiling for national health insurance premium	Original receipt(s) A copy of the personal life insurance policy
Medical and maternity expenses	Incurred and paid by the taxpayer, spouse or dependents to public hospitals or approved private hospitals or clinics less the portion reimbursed by insurance	Original receipt(s) issued by a qualified hospital or clinic
Natural disaster losses	Deductible when not compensated by insurance or other subsidies	Certificate(s) issued by local tax office

Deduction item	Maximum deduction for 2018	Supporting documents
Interest paid on loans for the purchase of an owner-occupied residence in Taiwan*	Limited to NT\$300,000 for a tax filing unit, less the interest income claimed for the same tax year	<ul style="list-style-type: none"> • Interest payment receipt(s) • Title deed • Document evidencing the residence was owner-occupied in a tax year
Rental expense for the lease of a self-use residence in Taiwan*	Limited to NT\$120,000 for a tax filing unit	<p>with the name of the taxpayer as lessee</p> <ul style="list-style-type: none"> • Rental payment receipt(s) issued by the landlord • A Copy of the rental contract signed by the taxpayer or the taxpayer's spouse and landlord • Document(s) evidencing the residence was for self-use in the tax year

* Either "interest paid on loans" or "rental expense" is to be claimed.

Special deductions

Deduction item	Maximum deduction for 2018	Supporting documents
Salaries and wages	Limited to NT\$200,000 per person, or actual salary and wage received, whichever is lower	None
Property transaction losses	Losses realised from the sale of property incurred by the taxpayer, spouse or dependents are only deductible against the gains originating from the disposal of property in the same tax year. Any remaining losses may be carried forward for three years	<ul style="list-style-type: none">• Purchase and sales contract showing the purchase and sales price• Other relevant documentation detailing costs and expenses incurred
Savings and investment	Limited to NT\$270,000 per tax filing unit. This deduction does not apply to tax-exempt interest income from postal savings accounts	None

Deduction item	Maximum deduction for 2018	Supporting documents
Disabled or handicapped individuals	Up to NT\$200,000 per year is allowed for each taxpayer, spouse or dependent who qualifies as a physically or mentally disabled person	Copy of a psychiatrist's diagnosis certificate or copy of disability identification Must provide a copy of disability card issued by relevant government authority in Taiwan.
Dependent child tuition	Up to NT\$25,000 per child per year for college or university tuition fees paid by the taxpayer, where the child does not receive government subsidy or scholarship	Student certificate or tuition receipt(s) issued by the dependent child's college or university A copy of the dependent's student ID
Pre-school children	NT\$120,000 per dependent child aged five or younger per year*	None

* Deduction not available if taxpayer's annual net taxable income after the deduction is subject to a progressive tax rate of 20% or higher, or their annual basic income under AMT exceeds the NT\$6.7 million deduction threshold.

Basic Living Expense Difference

The basic living expense is calculated based on the average amount to maintain basic living in Taiwan for each person, and the amount should not be taxed. The Ministry of Finance has announced that the basic living expense amount for 2018 was NT\$ 171,000. Each tax filing unit should multiple the number of tax payer, spouse and dependents to calculate the total living expense for the unit. If the basic living expense exceeds the sum of exemptions, standard/itemize deduction and special deduction for salary and wages, the difference can be used as an additional deduction from the gross consolidated income.

Filing

Resident individuals are required to report all of their Taiwan- sourced income, irrespective of the payment location of such income, and to file an annual income tax return with the Taiwan tax authority between 1 May and 31 May of the following year, with no extension allowed. The taxpayer must include the income, exemptions and deductions of his/her spouse and any claimed dependents in the tax return.

For resident individuals, a consolidated individual income tax return must be filed with respect to Taiwan-sourced income. Married couples must file joint returns if both spouses are resident taxpayers. Starting from 1 January 2014, there are three options available for filing a joint return:

- A joint return is filed by husband and wife incorporating all types of income to determine the taxes due;
- A spouse can calculate taxes due on that spouse's salaries/ wages separately, with additional taxes calculated on remaining joint income;
- A spouse can include other types of income earned by that spouse together with salaries/wages earned to calculate the taxes due, with additional taxes calculated on remaining joint income.

The income of any dependents for whom the taxpayer has claimed a personal exemption must also be included in the joint tax return.

The following are the tax filing procedures for foreign nationals, depending on their length of stay:

- An individual staying in Taiwan for less than 90 days in a calendar year is not required to file an income tax return prior to leaving Taiwan, unless he/she has Taiwan-sourced income not subject to withholding tax (such as gains on sale or disposal of assets and from trading activities).
- An individual present in Taiwan for more than 90 days but less than 183 days in a calendar year must file a tax return for the current year before final departure with respect to Taiwan-sourced income, regardless of where such income was paid and received, or appoint a tax agent to complete the filing on behalf of the individual.

- An individual who stays in Taiwan for 183 days or more in a calendar year must file an annual income tax return by 31 May deadline. If the taxpayer intends to leave Taiwan and will not return to Taiwan within the same year, the taxpayer must file a tax return before departure or appoint a tax agent to complete the filing on behalf of the individual. For departure tax returns, the individual's exemptions and deductions for the tax year will be pro-rated based on the number of days the individual has resided in Taiwan during the year.

Payment of taxes

In Taiwan, the payment of an individual's income tax liability is required before the actual return is filed. Income tax is withheld on salaries paid in Taiwan and any additional tax due must be paid before the annual tax return is filed. The local tax collection office will only accept a fully paid tax return.

Penalties

For late filing, the taxpayer must pay interest on any unpaid taxes from the day following the original payment due date to the date of payment. The interest charge is based on the prevailing one-year time deposit interest rate set by the Directorate General of the Postal Remittances & Savings Bank each year.

Underreporting of taxable income is subject to a penalty of up to two times the additional taxes assessed, and the

penalty may be increased to three times the additional taxes due if a tax return is not filed.

Alternative minimum tax (AMT)

In addition to regular tax calculations under the ITA, Taiwan also imposes AMT on individuals who are tax residents in Taiwan (including expatriates who stay in Taiwan for 183 days or more in a tax year).

Resident taxpayers with AMT taxable income of more than NT\$6.7 million may be subject to AMT at the current rate of 20%. Under the Income Basic Tax Act, a taxpayer must calculate the amount of AMT due on income subject to AMT and compare the result with the regular income tax payable. Resident taxpayers must pay the higher of the AMT or regular income tax payable amounts. Any foreign taxes paid on offshore income may be offset against AMT payable with certain limitations.

AMT is based on the following formulae:

- Income subject to AMT = Regular taxable income + add- back items
- $AMT = (\text{Income subject to AMT} - \text{NT\$6.7 million}) \times 20\%$

The add-back items include overseas income exceeding NT\$1 million in a tax year, proceeds from certain life insurance and annuity policies, income derived from transactions of privately-placed securities investment trust funds, and non- cash charitable donations claimed as itemised deductions.

VALUE ADDED TAX (VAT)

General overview

Business tax generally applies on the sale of goods and services within Taiwan, as well as the importation of goods into Taiwan. Business tax is imposed under two systems: valued-added tax (VAT) and non-VAT (also known as gross business receipts tax or GBRT).

- VAT - applicable to general industries. The tax is levied according to the value added to goods or services at each stage in the production and distribution chain. The current standard rate of VAT is 5%, except for the sale of goods or services that are zero-rated, or which qualify for VAT exemption. The general rule is that an input tax credit is only available under the VAT system. Each seller collects output VAT from the buyer at the time of sale, deducts input VAT paid on purchases from output VAT, and remits the balance to the tax office. Overpaid VAT is refundable under certain circumstances. Thus, VAT in most cases does not represent an additional cost to the enterprise; rather, the cost is passed on to the end consumer.
- Non-VAT (also known as gross business receipts tax or GBRT) - applicable to financial institutions, special vendors of beverages and food, and small scale business enterprises. Their sales, based on gross receipts, are subject to various business tax rates.

Taxpayers

Business entities that sell goods or services in Taiwan are required to pay business tax and issue a government uniform invoice (GUI) to buyers at the time of sale, delivery or receipt of payment, unless exempt from doing so. Traditionally printed GUIs are gradually being replaced by electronic ones.

Business tax is also levied on the consignees or holders of imported goods, and the buyer of services supplied by foreign companies with no fixed place of business in Taiwan. The service buyer (corporate entity) need not pay the tax if solely engaged in taxable transactions subject to either 0% or 5% VAT.

Taiwan has formally implemented a VAT mechanism for cross-border sales of B2C services. Under said mechanism, sales of cross-border electronic services annually exceeding NT\$ 480,000 by corporate sellers without fixed places of business in Taiwan to individual buyers require the foreign companies to register for VAT purposes in Taiwan and pay VAT. From January 1, 2019 onwards, the foreign companies providing cross-border B2C electronic services shall issue cloud-based GUI. In consideration that integration of the foreign electronic service providers' IT system with the government's E-Invoice Integrated Service Platform could be time-consuming and labor intensive, a grace period of one year commencing from January 1, 2019 is granted. Such foreign electronic service providers are exempt from penalties imposed under the Business Tax Act and Tax Collection Act during the above-mentioned grace period of one year until December 31, 2019.

VAT rate

5% standard rate applies generally on all domestic sales of goods and services, and importation of goods.

The following are goods and services which are zero-rated:

- Export of goods.
- Services provided in connection with exports or services provided within Taiwan but used in foreign countries.
- Goods sold to outbound or transit passengers by duty-free shops established under applicable law.
- Sales of goods or services to enterprises located within bonded zones used in business operation.
- International transportation, provided that reciprocal tax treatment is granted by the home country of the foreign international transportation company.
- Vessels and aircrafts used in international transportation and deep-sea fishing boats.
- Sale of goods or maintenance services to vessels and aircrafts used in international transportation and deep-sea fishing boats.
- Goods sold by enterprises located in bonded zones to enterprises located in taxable zones, where the goods are exported directly instead of delivered to taxable zones.

- Goods sold by enterprises located in bonded zones to enterprises located in taxable zones, where the goods

Bonded zone refers to an export processing zone, science industrial park, agricultural technology park, and free trade zone approved by the government, or a bonded factory, bonded warehouse, or logistics centre administered by customs, or any other designated area approved by the government authorities.

Lawmakers in Taiwan are currently in the process of amending regulations to increase Taiwan's VAT rate from the current 5% to a new rate of 5.5%. The regulation is currently still being drafted by lawmakers. The current proposal is for the new 5.5% VAT rate to take effect one year from now.

GBRT rates

GBRT Rate	Goods / Services
0.1%	This rate applies to consignees of agricultural wholesale markets and small scale business entities which sell agricultural products.
1%	<p>This rate applies on reinsurance premiums of insurance enterprises.</p> <p>This rate also applies to small scale business entities, and qualified massage enterprises run by visually impaired persons that are entirely staffed with visually impaired persons to provide massage services, and other businesses approved by the MOF.</p>
2%	This rate applies to core operations of financial institutions engaged in investment trust, securities, futures, commercial paper and pawnshops.
5%	<p>This rate applies to non-core operations of investment trusts, securities, futures, commercial paper and pawnshops.</p> <p>This rate also applies to core and non-core operations of banking and insurance institutions, however, property insurance enterprises shall deduct self-retained claim compensation when computing business tax payable.</p>
15%	This rate applies to night clubs or restaurants providing entertainment show programs.
25%	This rate applies to saloons, tea rooms, coffee shops and bars providing hostesses to entertain customers.

Exempted goods and services

A total of 32 categories of goods or services are currently exempt from business tax. Categories of income exempt from business tax include, but are not limited to:

- Sale of land.
- Medical services, medicine, ward lodging and meals provided by hospitals, clinics and sanitararia.
- Social welfare services provided (or rendered on behalf of government) by social welfare organisations or labour organisations, duly established with permit of the government.
- Education services offered by schools, kindergartens, other educational and cultural institutions, including cultural services offered under government's consignment.
- Textbooks authorised by education authorities for use at various levels of schools and important specialised academic writings awarded by the government according to the law.
- Newspapers, magazines, newsletters, advertisements, television and broadcasting programs produced and sold by legally registered newspaper and magazine publishers, news agencies, and television and broadcasting stations, excluding advertisements sold by newspaper publishers and advertisements broadcasted by television stations.

- Proceeds from goods sold in tenders, charity sales and charity shows held by charity and relief institutions organised according to the law, provided that the total proceeds are solely used by said institutions after deducting the necessary expenditures for the tenders, charity sales and charity shows.
- Goods or services sold by employee welfare organisations of government bodies, state owned enterprises and social organisations which are organised and operated under relevant laws and are not open to the public.
- Services rendered by post and telecommunication offices in accordance with the law; and business consigned under government mandate.
- Consigned sale of stamp tax tickets and postage stamps.
- Feed and unprocessed raw agricultural, forestry, fishery and livestock products, and by-products; the agricultural, forestry, fishery and livestock products, and by-products of farmers' and fishermen's harvests sold by farmers and fishermen.
- Fish caught and sold by fishermen.
- Sales of rice and wheat flour and service of husking rice.
- Sales of fixed assets which are not regularly traded by business entities which compute their business tax according to Section II of Chapter 4, i.e. financial institutions, etc.

- Insurance policies accepted by insurance enterprises for insurance promoted by the government, covering military, government and education entities' employees and their dependents, labourers, students, farmers, fishermen, exports, compulsory automobile third party liability insurance, and reinsurance premiums paid out by insurance enterprises from premiums received by the same, and life insurance policy reserves, annuity insurance policy reserves and health insurance policy reserves, provided, however, that this does not include income, other benefits and return of policy reserves received on termination of life insurance, annuity insurance and health insurance.
- Bonds issued by all levels of government and securities upon which a securities transaction tax has been imposed in accordance with the law.
- Fertilizer, pesticides, veterinary drugs, agricultural machinery, transportation equipment for farmland, and fuel and electricity used by such machinery and equipment.
- Fishing boats for coastal or inshore fishery, and machinery equipment, fishing nets and fuel used by fishing boats.
- Interest on the flow of funds between head office and branch offices of banking enterprises, revenue of investment trust enterprise derived from trust funds in the manner designated by the settler, provided the settler bears the risk of loss and enjoys the proceeds, and unredeemed items where the proceeds arising from

their sale by pawnshops does not exceed the aggregate of principal and interest receivable.

- Gold bars, gold bricks, gold foil, gold coins and gold ornaments, excluding the processing fee.
- Research services supplied by academic and scientific research institutions which are established under the approval of the government.
- Sales amount of enterprises operating financial derivatives products, corporate bonds, financial bonds, New Taiwan Dollar interbank call loans and foreign currency call loans, excluding commissions and service charges of these products.

Any business entity which sells the aforementioned exempt goods or services can apply to the MOF to waive the exemption and compute its business tax according to the provisions of Section 1 of Chapter 4, i.e. taxes payable or deductible / refundable is based on the difference between input VAT and output VAT. However, once approved, no changes can be made within three years.

Filing and payment of taxes

An enterprise, whether or not it has sales, must generally file a bi-monthly VAT return with the collection authority by the 15th day of each odd month for the two preceding months. A company that qualifies for zero-rated VAT may apply to file returns on a monthly basis. The tax payable must be paid before filing the return.

The head office and other fixed place of businesses of the same enterprise located in Taiwan must file separate bi-monthly returns to the local tax authorities. Subject to certain requirements, a business entity may file a consolidated tax return to the local collection authority-in-charge of the head office.

Overpaid VAT is refundable after verification by the tax authority if certain conditions are satisfied. Also, foreign companies with no fixed place of business in Taiwan that purchase goods or services for exhibitions or temporary business activities within a one year period may qualify for a refund.

An agent of a foreign transport enterprise which has no fixed place of business in Taiwan must file VAT returns and pay VAT for outbound passengers and cargo.

SPECIFICALLY SELECTED GOODS AND SERVICES TAX (LUXURY TAX)

General overview

The Specifically Selected Goods and Services Tax Act was initially introduced with the main aim of curbing real estate speculation, though it also applies more broadly to a basket of high end goods and rights. However, as a result of the new Real Property Tax regime taking effect, Specifically Selected Goods and Services Tax Act will no longer be levied on sales of land or building after 1 January 2016 (Please refer to “Corporate Income Tax” and “Personal Income Tax” sections for details).

Luxury tax is imposed on the sale, manufacture, and import of certain goods and services within Taiwan on an ad valorem basis.

Luxury tax is levied on the total consideration (selling price), inclusive of commodity tax and business tax (where applicable).

Tax rates

Tax Rate	Specifically Selected Goods / Services
10%	<ul style="list-style-type: none"> • Passenger cars: Any passenger car that, including the driver's seat, has nine seats or less and a selling price or taxable value of NT\$3 million or more. • Yachts: Any yacht at least 30.48 metres (100 feet) long. • Airplanes, helicopters, and ultra-light vehicles: Any airplane, helicopter, or ultra-light vehicle with a selling price or taxable value of NT\$3 million or more. • Turtle shells, hawksbill, coral, ivory, furs, and their products: Any of the aforesaid items that has a selling price or taxable value of NT\$500,000 or more, excluding those that are not protected species under the Wildlife Conservation Act, or products made from them. • Furniture: Any item of furniture with a selling price or taxable value of NT\$500,000 or more. • Specifically selected services: Any membership right with a selling price of NT\$500,000 or more, but excluding refundable deposit.

Exempted goods

The following specifically selected goods (except buildings and land) are exempt from luxury tax:

- Goods used for the manufacture of another taxable specifically selected good.
- Goods for export abroad.
- Goods used for display in an exhibition, and shipped back to the factory or exported after exhibition.
- Goods used exclusively for education, research, or experiment by a public or private school at any level, or educational or research institute, in accordance with the purpose of its establishment, or which is used exclusively for participation in international contests and training.
- Passenger cars that are exclusively used for research and development, public safety, emergency medical care, or disaster relief.
- Airplanes, helicopters and ultra-light vehicles not for personal use.

Filing and payment of taxes

A taxpayer must generally submit a duly completed declaration form with the tax authority by the 15th day of the following month (for other specifically selected goods and services). The tax payable must be paid before submitting the declaration form.

SECURITIES TRANSACTION TAX

General overview

Trading in Taiwanese securities shall be subject to securities transaction tax and is payable by the seller of securities.

Chargeable securities include shares issued by companies, corporate bonds, government bonds, and other securities offered to the public with government approval.

Trading of corporate bonds and financial bonds issued by Taiwanese issuers or companies are temporarily exempt from securities transaction tax assessment until 31 December 2026.

Tax rates

The applicable securities transaction tax rates are as follows:

- 0.3% on gross proceeds from the sale of shares issued by companies.
- 0.1% on gross proceeds from trading in corporate and financial bonds (temporarily exempt) and other securities approved by the government.

STAMP TAX

Stamp duty is chargeable on certain documents drawn up within the territory of Taiwan and not on transactions.

Scope of taxation

The types of documents subject to stamp tax include:

- Receipts for monetary payments.
- Contracts or deeds for the purchase and sale of movable properties.
- Contractual agreements for the completion of specific tasks.
- Contracts for the sale, transfer and partition of real estate.

The following documents are exempt from the levy of stamp tax:

- Documents executed by all levels of government agencies and townships (at town, city and district levels).
- Monetary receipts executed by public or private schools.
- Documents executed by government-owned or private enterprises internally and not involved in rights or obligations with third parties, including those issued for internal use between the head office and branches.

- Debit notes sent out for claim of payments or audit purposes.
- Duplicates or transcripts where a tax stamp has been affixed to the original document.
- Bus tickets, train tickets, boat tickets, air tickets and other tickets for carriage of passengers or cargo.
- Receipts issued for the sale of self-grown agricultural products (including agriculture, forestry, fishery and livestock) by farmers, or receipts issued by farmer's associations or wholesalers at the first wholesale level on behalf of farmers.
- Receipts identifying payment of salaries or wages.
- Receipts identifying payment of social benefits, payments to the family of a deceased person, or pensions.
- Receipts for taxes or donations to the government issued by collecting agencies.
- Receipts issued by voluntary handlers of government grants at the time of reimbursement.
- Receipts identifying tax refunds.
- Receipts issued for the sale of tax stamps.
- Receipts for donations received issued by entities organized for educational, cultural, public/ social welfare, or for charitable purposes.

- Receipts issued by the Agricultural Land and Water Association to its members for payment of irrigation services.
- Contracts for the construction or repair of ships or boats engaged in international transport.

Tax rates

- Receipts for monetary payments:
 - 0.4% of the amount received per piece, with revenue stamp to be affixed by the issuer.
 - 0.1% of the money deposited by the bidder, with revenue stamp to be affixed by the issuer.
- Contracts or deeds for the purchase and sale of movable properties: NT\$12 per piece with revenue stamp to be affixed by the contractor or issuer of the deed.
- Contractual agreements: 0.1% of the contract price, with revenue stamp to be affixed by the contractor or issuer of the deed.
- Contracts for the sale, transfer and partition of real estate: 0.1% of the contract price or the assessed standard price announced by the government, with revenue stamp to be affixed by the contractor or issuer of the deed.

CUSTOMS DUTIES

Customs duty is levied on all imported goods except those exempted under the Customs Act and related regulations, such as goods imported into bonded zones. The Customs Administration of the MOF is responsible for collecting customs duties and indirect taxes at import.

Basically, Taiwan's customs mechanism follows the customs valuation rules of the World Trade Organisation (WTO), of which it has been a member since 2002, and the Harmonised Commodity Description and Coding System of the World Customs Organisation for import tariff classification.

Customs duty is payable by the consignees, holders of the bills of lading or holders of the imported goods, and is based on the dutiable value or the volume of the commodities. The transaction value, using CIF prices, is the primary basis for customs value determination. In the event that transaction values cannot be used, the dutiable value is based either on a deductive or computed value.

Duty rate

Taiwan's tariff schedule has three sets of rates: most-favoured-nation rates applied to WTO members or other countries that accord reciprocal treatment; preferential rates; and rates applied to all other imports. As of 12 March 2018, the simple average import duty rate was 6.39% for all goods, as per customs data.

Customs duties exemptions

Certain goods are exempt from customs duty as provided in the Customs Act. Customs duty and VAT exemptions also apply to goods imported into designated bonded areas as highlighted in “Value Added Tax” section.

Declaration

Import declarations must be lodged with the customs office within 15 days of the date of arrival of the shipment in Taiwan; importers may also submit a pre-entry declaration. Payment of the applicable customs duty must be made within 14 days following the date of receipt of the customs declaration and payment request.

Importers are required to indicate the related party transaction information in the “special relationship” column of declaration forms. Should the importer use the old version, the column should be indicated as “Y” (Yes, related party transaction), and “N” (No, unrelated party transaction); with the new version, “135”, “136”, and “137” should be indicated, where each code stands for:

- 135: No “Special Relationship” has taken place;
- 136: “Special Relationship” has taken place, and influenced the transaction value;
- 137: “Special Relationship” has taken place, and not influenced the transaction value

COMMODITY TAX

General overview

Commodity tax (excise duty) is levied under the Commodity Tax Act on goods listed in the Act when manufactured domestically or imported from abroad. The taxpayers are as follows:

- The manufacturer of commodities produced domestically.
- The manufacturer of commodities manufactured under a consignment contract.
- The importer or holder of commodities, or bearer of the bill of lading for imported commodities.
- The winning bidder, the purchaser, or the assumer of the goods in the case of an auction or sale by a court or other institution of taxable commodities for which the tax has not yet been paid.
- The person initiating the transfer or the person who changes the purpose of use of tax-exempt commodities that lose tax-exempt status due to the transfer or change in purpose of use. However, in the event that the transferring party or the party that changes the purpose of use is unknown, the taxpayer is the holder of the goods. The taxable value of a taxable commodity

includes related packing costs. The taxable base for imported commodities is their customs duty paying value plus import duty and dues. For domestically produced commodities, the taxable value is the manufacturer's selling price less the commodity tax included in the price.

Taxable commodities include rubber tires, cement, beverages, flat glass, oil and gas, electric appliances and vehicles.

Commodity tax exemptions

Commodity tax is exempt in the following circumstances:

- Raw materials used for manufacturing other taxable commodities;
- Exported goods;
- Goods for exhibition but not for sale;
- Goods supplied for troop morale;
- Goods supplied directly for military use with the approval of the Ministry of National Defence.

Filing and payment of taxes

Commodity tax is payable by the 15th of the following month for goods shipped from the factory in the current month.

Manufacturers should set up and keep accounting books, documents of evidence and accounting records for accurate calculation of the commodity tax. For imported taxable commodities, the importer shall file with the Customs office, and the commodity tax is collected by the Customs office together with customs duties.

In the case of an auction or sale by a court or other institution of taxable commodities for which the tax has not yet been paid, the taxpayer shall declare and pay the tax before collecting the goods.

For tax-exempt goods that are transferred or which lose tax-exempt status due to change in purpose, the taxpayer shall declare and pay within 30 days following the day on which the tax-exempt goods are transferred or for which tax-exempt status is lost due to change in purpose.

Commodity tax rates

Type of commodity	%
Rubber tyres (other than those for large buses and trucks)	15
Rubber tyres for large buses and trucks	10
Non-alcoholic beverages (other than fruit and vegetable juices)	15
Fruit and vegetable juices	8
Cement	(a)
Plate glass	10(e)
Oil and gas	(b)
Refrigerators	13
Electric ovens	15
Television sets	13
Air conditioners – controlled by centralised system	15
Air conditioners – powered by electricity	20
Dehumidifiers	15(c)
Videotape recorders	13
Phonographs	10(d)
Tape recorders	10
Audio equipment combination sets	10
Cars with engines under 2000 c.c.	25(e)

Type of commodity	%
Cars with engines above 2000 c.c.	30(e)
Motorcycles	17
Trucks, buses and other vehicles	15(e)

Notes:

- (a) NT\$280-600 per ton.
- (b) NT\$110–6,830 per kilolitre or NT\$690 per ton depending on the oil or gas type.
- (c) Dehumidifiers used in factories are exempt from commodity tax.
- (d) Portable phonographs less than 32cm are exempt from commodity tax.
- (e) If certain conditions are met, commodity tax can be reduced or exempted.

PwC in TAIWAN

PwC Taiwan, with the largest tax practice in Taiwan, has been well-regarded as a leading tax and legal firm in Taiwan.

Blending our skills of tax specialists with our associate law firm, PwC Legal, PwC Taiwan is able to act as a one-stop service provider offering comprehensive tax and legal services.

2,800
employees

8 Offices in
Taiwan

Our industry specialization enables us to identify trends and customize solutions for your sector of interest. Each line of service is staffed with qualified experienced professionals and leaders in our profession. These resources, combined with our strong global network of member firms, allow us to provide the support you need in Taiwan and other foreign countries. Our services include the following:

- Corporate Income Tax and Indirect Tax Services
- Tax and Litigation Services
- International Tax Services
- Outsourcing and Accounting Services
- Financial Services Tax
- Corporate Secretarial Services
- China Tax Services
- Mergers & Acquisitions Services
- Transfer Pricing & BEPS Services
- International Assignment Services
- Japanese Business Services
- Legal Services
- US Tax Services
- IPO Tax Services
- Family Business & Private Wealth Services

Contacts for enquiries

Corporate Income Tax and Indirect Tax Services

Jason Hsu (Leader)

+886-2-2729-5212
jason.c.hsu@tw.pwc.com

Rosamund Fan

+886-2-2729-6077
rosamund.fan@tw.pwc.com

Sam Hung

+886-2-2729-5008
sam.hung@tw.pwc.com

Li-Li Chou

+886-2-2729-6566
li-li.chou@tw.pwc.com

Alvis Lin

+886-2-2729-5028
alvis.lin@tw.pwc.com

Tony Lin

+886-2-2729-5980
tony.lin@tw.pwc.com

Pei-Hsuan Lee

+886-2-2729-5207
pei-hsuan.lee@tw.pwc.com

Jack Hwang

+886-2-2729-6061
jack.hwang@tw.pwc.com

Ying-Hsun Liu

+886-2-2729-6258
ying-hsun.liu@tw.pwc.com

Tax and Litigation Services

Alvis Lin

+886-2-2729-5028
alvis.lin@tw.pwc.com

Eric Tsai

+886-2-2729-6687
eric.tsai@tw.pwc.com

International Tax Services

Elaine Hsieh

+886-2-2729-5809
elaine.hsieh@tw.pwc.com

Peter Su

+886-2-2729-5369
peter.y.su@tw.pwc.com

Paulson Tseng

+886-2-2729-5907
paulson.tseng@tw.pwc.com

Shing-Ping.Liu

+886-2-2729-6661
shing-ping.liu@tw.pwc.com

Outsourcing and Accounting Services

Rosamund Fan

+886-2-2729-6077

rosamund.fan@tw.pwc.com

Financial Services Tax

Richard Watanabe

+886-2-2729-6704

richard.watanabe@tw.pwc.com

Jessie Chen

+886-2-2729-5360

jessie.chen@tw.pwc.com

Corporate Secretarial Services

Jack Hwang

+886-2-2729-6061

jack.hwang@tw.pwc.com

China Tax Services

Patrick Tuan

+886-2-2729-5995

patrick.tuan@tw.pwc.com

Elliot Liao

+886-2-2729-6217

elliot.liao@tw.pwc.com

Mergers & Acquisitions Services

Elaine Hsieh

+886-2-2729-5809

elaine.hsieh@tw.pwc.com

Shing-Ping.Liu

+886-2-2729-6661

shing-ping.liu@tw.pwc.com

Transfer Pricing & BEPS Services

Lily Hsu

+886-2-2729-6207
lily.hsu@tw.pwc.com

Elaine Hsieh

+886-2-2729-5809
elaine.hsieh@tw.pwc.com

Peter Su

+886-2-2729-5369
peter.y.su@tw.pwc.com

Shing-Ping.Liu

+886-2-2729-6661
shing-ping.liu@tw.pwc.com

Elliot Liao

+886-2-2729-6217
elliott.liao@tw.pwc.com

Patrick Tuan

+886-2-2729-5995
patrick.tuan@tw.pwc.com

Paulson Tseng

+886-2-2729-5907
paulson.tseng@tw.pwc.com

International Assignment Services

Li-Li Chou

+886-2-2729-6566
li-li.chou@tw.pwc.com

Alvis Lin

+886-2-2729-5028
alvis.lin@tw.pwc.com

Japanese Business Services

Tony Lin

+886-2-2729-5980
tony.lin@tw.pwc.com

Kenji Okuda

+886-2-2729-6115
kenji.okuda@tw.pwc.com

Legal Services

Eric Tsai

+886-2-2729-6687
eric.tsai@tw.pwc.com

Ross Yang

+886-2-2729-6100
ross.yang@tw.pwc.com

Hung-Lieh Liang

+886-2-2729-5350
hung-lieh.liang@tw.pwc.com

Yuan-Yao Chung

+886-2-2729-6256
yuan-yao.chung@tw.pwc.com

US Tax Services

Peter Su

+886-2-2729-5369

peter.y.su@tw.pwc.com

IPO Tax Services

Tony Lin

+886-2-2729-5980

tony.lin@tw.pwc.com

Sam Hung

+886-2-2729-5008

sam.hung@tw.pwc.com

Elliot Liao

+886-2-2729-6217

elliot.liao@tw.pwc.com

Eric Tsai

+886-2-2729-6687

eric.tsai@tw.pwc.com

Jack Hwang

+886-2-2729-6061

jack.hwang@tw.pwc.com

Alvis Lin

+886-2-2729-5028

alvis.lin@tw.pwc.com

Elaine Hsieh

+886-2-2729-5809

elaine.hsieh@tw.pwc.com

Yuan-Yao Chung

+886-2-2729-6256

yuan-yao.chung@tw.pwc.com

Family Business & Private Wealth Services

Howard Kuo

+886-2-2729-5226

howard.kuo@tw.pwc.com

Sam Hung

+886-2-2729-5008

sam.hung@tw.pwc.com

PwC Taiwan offices

Taipei

27F, No. 333, Sec. 1, Keelung Rd.,
Xinyi Dist., Taipei 11012, Taiwan

Tel: +886 2 2729 6666

Fax: +886 2 2729 6686

Hsinchu

5F, No. 2, Gongye East 3rd Rd.,
Hsinchu Science Park, Hsinchu
30075, Taiwan

Tel: +886 3 578 0205

Fax: +886 3 577 7985

Tainan

12F, No. 395, Sec. 1, Linsen Rd.,
East Dist., Tainan 70151, Taiwan

Tel: +886 6 234 3111

Fax: +886 6 275 2598

Kaohsiung

22F, No. 95, Minzu 2nd Rd., Xinxing
Dist., Kaohsiung 80048, Taiwan

Tel: +886 7 237 3116

Fax: +886 7 236 5631

Taoyuan

30F, No. 1092, Zhongzheng Rd.,
Taoyuan Dist., Taoyuan 33045, Taiwan

Tel: +886 3 315 8888

Fax: +886 3 358 5499

Taichung

12F, No. 402, Shizheng Rd., Xitun
Dist., Taichung 40757, Taiwan

Tel: +886 4 2704 9168

Fax: +886 4 2254 2166

Southern Taiwan Science Park

Rm. C, 2F-1, No. 17, Nanke 3rd.,
Xinshi Dist., Tainan 74147, Taiwan

Tel: +886 6 234 3111

Fax: +886 6 505 0808

PwC Legal, Taipei Office

Rm. 2209, 22F, No. 333, Sec. 1,
Keelung Rd., Xinyi Dist., Taipei
11012, Taiwan

Tel: +886 2 2729 5200

Fax: +886 2 2729 0677



© 2019 PricewaterhouseCoopers Taiwan. All rights reserved. PwC refers to the Taiwan member firm, and may sometimes refer to the PwC network. Each member firm is a separate legal entity. Please see www.pwc.com/structure for further details. This content is for general information purposes only, and should not be used as a substitute for consultation with professional advisors.