Taiwan Tax Update

September 2017

Proposed tax reform

The Ministry of Finance ("MOF") announced on September 1, 2017 draft amendments to the Income Tax Act.

The tax reform covers individual income tax ("IIT"), corporate income tax ("CIT") and taxation of foreign shareholders. The amendment is expected to take effect beginning from 2018. Regulations most relevant to foreign shareholders and foreign nationals employed in Taiwan are summarised as follows:

Item	Current tax system	Proposed tax reform
Dividend income	1. Standard withholding tax rate is 20%. Reduced withholding tax rates may be utilized in accordance with applicable tax treaties. 2. Approximately 50% of surtax on undistributed earnings paid in prior years can be credited against dividend withholding tax, subject to a ceiling.	1. Standard withholding tax rate is 21%. Reduced withholding tax rates may be utilized in accordance with applicable tax treaties. 2. Surtax on undistributed earnings can no longer be credited against dividend withholding tax, with the exception of 2018, i.e. dividends distributed in 2018 can still utilize the tax credit.
CIT rate	1. 17% CIT rate 2. 10% surtax imposed on undistributed earnings	1. 20% CIT rate 2. 5% surtax imposed on undistributed earnings
IIT maximum tax rate	45%	40%
IIT	Resident individual taxpayers may	Resident individual taxpayers

Item	Current tax system	Proposed tax reform
deductions	claim the following deduction: 1. standard deduction of NTD 90,000 (NTD 180,000 for a married couple filing jointly) 2. salary deduction of NTD 128,000 3. special deduction for physical or mental disability of NTD 128,000	may claim the following deduction: 1. standard deduction of NTD 110,000 (NTD 220,000 for a married couple filing jointly) 2. salary deduction of NTD 180,000 3. special deduction for physical or mental disability of NTD 180,000

Expected implementation timeline and action item

I. The proposed tax reform is expected to take effect beginning January 1, 2018. For entities that have a non-calendar year end, the tax reform will apply starting from FY2018. For instance, a company with fiscal year running from April 1, 2017 to March 31, 2018 will still use the current tax system, e.g. 17% CIT rate and 10% surtax rate; while for its fiscal year running from April 1, 2018 to March 31, 2019, the proposed tax reform will take effect, e.g. 20% CIT rate and 5% surtax rate.

II. (1) For 2018, approximately 50% of 10% surtax already paid on undistributed earnings is creditable against dividend withholding tax. Therefore, the effective surtax rate can be seen as 5%.

(2) For 2019, 10% surtax is still levied on undistributed 2017 earnings, i.e. if 2017 earnings are not distributed to shareholders in 2018, 10% surtax will be levied in 2019. Tax credits are no longer available against dividend withholding tax. Therefore, the effective surtax rate is 10%.

(3) For 2020, 5% surtax is levied on undistributed 2018 earnings, and tax credits are no longer available against dividend withholding tax. Therefore, the effective surtax rate is 5%.

III. Companies are thus recommended to distribute all prior year earnings before end of FY2018 to utilize the grace period for crediting surtax on undistributed earnings against dividend withholding tax.

IV. Companies should closely monitor the developments of the proposed tax reform.

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