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Taiwan Tax Update

December 2020

Ministry of Finance ("MOF") issued tax ruling stipulating that costs and expenses associated with tax exempt COVID-19 subsidies, allowances, incentives, or compensations ("subsidies") received by profit-seeking enterprises are fully tax deductible

A. Tax Ruling Highlights

1. Eligible parties refer to those that receive subsidies in accordance with the Special Act for COVID-19 or regulations set by other competent authorities (e.g. Ministry of Transportation and Communications, Ministry of Culture, Ministry of Economic Affairs, etc.).
2. Government subsidies are treated as tax-exempt income in the year such subsidies are received. Associated costs and expenses are fully tax deductible and do not need to be individually attributed or allocated to such tax-exempt income.

B. Analysis of Different Subsidies Received

1. Subsidies for salary and working capital: Subsidies given to profit-seeking enterprises are eligible for income tax exemption treatment mentioned above.

2. Exemption or reduction of utility bills: Exemption or reduction of expenses are not considered subsidies, and therefore cannot apply income tax exemption treatment mentioned above.

3. Subsidies for rent and royalties, or exemption/reduction of the same: Subsidies are eligible for income tax exemption treatment; however, reduction of expenses are not eligible for income tax exemption treatment.

Please note that if intermediary facilities operator, based on the government authority's request, passes on subsidies to downstream retailer, e.g. if $50 subsidy is given to intermediary facilities operator, who passes on $30 to downstream retailer, $20 subsidy retained by intermediary facilities operator and $30 subsidy received by downstream retailer are both eligible for income tax exemption treatment mentioned above.

4. Subsidies for interest: Subsidies for interest granted to profit-seeking enterprises under the Special Act for COVID-19 (subsidies are directly paid by the government to financial institutions first) are eligible for income tax exemption treatment.

PwC Reminder:

There are many forms of COVID-19 subsidies granted by different government agencies. Whether income tax exemption treatment applies should be individually assessed. Profit-seeking enterprises should distinguish between taxable subsidies and tax-exempt subsidies to ensure that it does not under-report taxable income. In addition, subsidies granted under the Special Act for COVID-19 which provide for income tax exemption or reduction are excluded from alternative minimum tax ("AMT") calculation, i.e. not required to be added back as tax base for AMT calculation. The items excluded from AMT tax base include:

1. 200% deduction for salary expense paid by profit-seeking enterprise to employees who are on quarantine leave due to COVID-19;
2. Aforementioned income tax-exempt subsidies, allowances, incentives, or compensations granted by the government.

Taiwan-Czech tax treaty to come into force on January 1, 2021

Taiwan-Czech tax treaty became effective on May 12, 2020, and will come into force on January 1, 2021. The tax treaty provides tax relief on business profit, investment income (e.g. dividends, interest, royalties), and capital gain, as well as mechanism for dispute resolution for tax resident individuals and enterprises of the Czech Republic and Taiwan.

(For details, please refer to March 2020 Taiwan Tax Update: https://www.pwc.tw/zh/publications/taiwan-tax-news/tax-news-202003.html)

PwC Reminder:

Starting 2021, if Taiwan tax residents derive revenues from the Czech Republic, e.g. technical or management service revenues, dividends, interest, or royalties, etc., an income tax exemption application or usage of reduced withholding tax rates under the Taiwan-Czech tax treaty may be submitted to the Czech tax authorities. If excessive taxes are paid in the Czech Republic due to Taiwan enterprises failing to apply treaty benefits, foreign tax credit will not be allowed by Taiwan tax authorities for excessive taxes paid where treaty benefits have not been availed.

Tax residents of the Czech Republic obtaining dividends, interest, and royalties from Taiwan are eligible for reduced withholding tax rates under the Taiwan-Czech tax treaty. Thus, when Taiwan tax withholders file withholding tax statements and returns, taxpayers who can provide tax resident certificates issued by the Czech tax authorities, beneficial ownership declaration letter, and other relevant supporting documents may apply reduced withholding tax rates under the Taiwan-Czech tax treaty.

Taiwan and Saudi Arabia signed Taiwan-Saudi tax treaty on December 2, 2020

Taiwan and Saudi Arabia signed the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (“Taiwan-Saudi tax treaty”) on December 2, 2020. Once both parties have notified each other on the completion of respective domestic legal procedures, the Taiwan-Saudi tax treaty will become effective starting January 1 of the subsequent year.

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