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Taiwan Tax Update

May 2022

Tax Incentives

Ministry of Economic Affairs announced draft amendments to regulations governing investment tax credit for smart machinery, 5G network and information security products or services

Salient points of the draft amendment are summarized below:

Item	Description
Scope of information security products or services	Information security products or services refer to any product or service designed to protect information from unauthorized access, usage, control, leakage, destruction, tampering, deletion, or other infringement, and to ensure its confidentiality, integrity, and availability. It is any hardware, software, technology, or technical services used to protect terminal and mobile devices, maintain cyber security or data and cloud security, and which is capable of identifying, protecting, detecting, responding to, and recovering relevant information.
Year investment tax credit can be claimed	Revised from 2022 onwards to be based on the year of delivery of products or completion of services. The draft amendment also provides for a transition period.
One investment tax credit application per year	Investment tax credit ("ITC") applications can only be submitted once in every tax year. However, profit-seeking enterprises that change their accounting year end are exempt from this limitation in the short year prior to the change in accounting year end.
Evidentiary documents	Additional evidentiary documents required now include proof of actual payment. In addition, the draft amendment pre-defines evidentiary documents required for those who self-manufacture or

	commission others to manufacture the relevant items eligible for ITC application.
Investment tax credit application must be submitted before stipulated deadline	If the ITC application is not submitted to the competent authority for approval in the prescribed format before the end of the corporate income tax ("CIT") return filing deadline, the taxpayer can no longer claim ITCs.

PwC Analysis:

1. "Information Security Products or Services" do not include anti-virus software or firewall installed on personal computers, as these features are already deemed a common requirement when using computer hardware, and do not qualify as expenditures incurred to promote industrial investment and innovation. Hence, these expenditures are not eligible for ITC.

2. For any year up to and including 2021, the applicable year for claiming ITC is determined by the year in which Government Uniform Invoice ("GUI") was issued, or the year in which payment was made. From 2022 onwards, the year of delivery of products or completion of services is used to determine the applicable year for claiming ITC. With regards to the transition period, for delivery of products or completion of services before the end of 2021, with payments made after the start of 2022, the year in which payment was made will be used for claiming ITC. Taxpayers should note the aforementioned guideline during the transition period, and ensure duplicate ITC applications are not made.

3. Under the existing ITC regulations, an applicant may only file one ITC application in the same tax year. The draft amendment stipulates that profit-seeking enterprises that have changed their accounting year end may apply for ITC in the period both before and after the change in accounting year end, and therefore are no longer restricted to filing one ITC application in the same tax year. However, the expenditure limit eligible for ITC shall be prorated according to the period before the change in accounting year end. For example, if the profit seeking enterprise previously adopted a calendar year end, but changed its year end to March 31, i.e. new tax year runs from April 1, 2022 to March 31, 2023, the expenditure limit eligible

for ITC in the three months period before the change in accounting year end is calculated as NT$250 million (i.e. NT$1,000,000,000 x 3/12).

4. On top of existing evidentiary documents required to support expenditures eligible for ITC, draft amendments were made to request for additional proof of payment, to allow the tax authorities to verify the actual expenditure amount. In addition, the draft amendment also lays out the evidentiary documents required for those who self-manufacture or commission others to manufacture the relevant items eligible for ITC application, e.g. GUIs, accounting entries, contracts, cost breakdown, etc.
5. The draft amendment stipulates that if a profit-seeking enterprise does not file the ITC application using prescribed format prior to the end of the CIT return filing period, ITC can no longer be claimed for that year.

National Tax Administration - Northern Area's response to CPA Association: Licensed software paid by enterprises and booked as intangible assets can be eligible for substantive investment deduction from undistributed earnings

In accordance with relevant provisions of the Statute for Industrial Innovation, if a company uses its undistributed earnings to purchase or repair software or hardware used in self-production or business operations, such substantive investment can be deducted from undistributed earnings when calculating the current year's undistributed earnings tax. The letter issued by the National Tax Administration - Northern Area states that where a company uses its undistributed earnings to purchase computer software or upgrade existing software system for use in self-production or business operations, even if the company only obtains the right to use the software during the licensed period and within the licensed scope, and does not own legal title of the software, if the software is booked as intangible assets based on accounting standards, such software is eligible for substantive investment deduction from undistributed earnings.

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Income Tax

Ministry of Finance announced extension of deadline for filing FY2021 CIT return and tax payment to June 30, 2022

The Ministry of Finance announced that the deadline for filing FY2021 CIT returns and payment of relevant taxes has been extended to June 30, 2022, with deadline of other associated workflows also extended correspondingly:

1. The FY2021 CIT return filing and tax payment deadline for companies with calendar year end has been extended to June 30, 2022. No application is required for this extension, and no interest will accrue on taxes paid between May 1, 2022 to June 30, 2022. Moreover, there is no impact on usage of tax losses carried forward from the past 10 years.

2. The deadline for usage of the income query system has also been extended to June 30, 2022.

3. For profit-seeking enterprises applying for ITC (such as R&D and Smart Machinery & 5G ITCs), the deadline for submitting the application to the Ministry of Economic Affairs follows that of the CIT return filing deadline. Thus, the application deadline is also extended to June 30, 2022.

4. For profit-seeking enterprises filing CIT returns electronically over the internet, the deadline for submitting related appendices and CPA certification report to the National Tax Administration is August 1, 2022.

5. For profit-seeking enterprises filing dissolution and liquidation CIT returns or those filing CIT returns using special accounting year end, as long as the CIT return filing and tax payment deadline is originally between May 1, 2022 to May 31, 2022, the deadline may be extended for another 30 days.

PwC Analysis:

Profit-seeking enterprises impacted by COVID-19 and thus unable to pay taxes as they come due can apply, during the CIT return filing and tax payment period (including the extended period), to defer tax payments or pay taxes due in installments. Those that obtain approval to do so will be deemed as having paid taxes within the stipulated deadline, whereby no interest will be applied on CIT payable, and taxpayers are still eligible for tax benefits provided for usage of blue returns and CPA certified CIT returns, etc. However, if the deadline for any deferred or installment tax payment is missed, the CIT return filed in that corresponding year will be viewed as an ordinary return, and relevant tax benefits originally provided will no longer be applicable.

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