

# Taiwan Tax Update

July 2022

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## Tax Incentives

Ministry of Economic Affairs announced draft amendment to Statute for Industrial Innovation by introducing Article 10-2

Ministry of Economic Affairs announced draft amendment to Statute for Industrial Innovation ("Statute"), which states that companies with critical position in global supply chain may claim investment tax credit ("ITC") of 25% on research & development ("R&D") expenditure and 5% on procurement of machinery/equipment. The applicable period for utilizing such ITCs span 7 years, beginning from 1 January 2023 to 31 December 2029 (expiry date of Statute). Salient points of the draft amendment are summarized as follows:

Item	Explanation
Criteria	<ol style="list-style-type: none"><li>1. Companies that undergo technological innovation onshore and possess leading position in global supply chain (not limited to any specific industry).</li><li>2. Companies that have not committed serious violation of environmental protection, labor, or food safety and sanitation laws during the past 3 years.</li><li>3. R&amp;D expenditure of the company in a taxable year and ratio of such R&amp;D expenditure to net revenues in the same taxable year reaches a certain level (relevant sub-regulations will be separately announced).</li><li>4. The effective tax rate of the company is not less than 15% (based on global minimum tax system introduced by OECD).</li></ol>

Regulation for claiming ITC	<ol style="list-style-type: none"> <li>1. ITC for forward-looking innovative R&amp;D expenditure: <ol style="list-style-type: none"> <li>1) Credit up to 25% of forward-looking innovative R&amp;D expenditure against corporate income tax (“CIT”) payable for current year, which is capped at 30% of CIT payable.</li> <li>2) No longer eligible for claiming ITC on generic R&amp;D expenditure, double deduction of R&amp;D expenditure and other income tax incentives granted for R&amp;D expenditure.</li> </ol> </li> <li>2. ITC for purchase of machinery and equipment used in advanced manufacturing process <ol style="list-style-type: none"> <li>1) Where purchase of brand new machinery and equipment for self-use in advanced manufacturing process reaches a certain threshold, the company can credit up to 5% of said expenditure (with no limit) against CIT payable for current year, which is capped at 30% of CIT payable.</li> <li>2) No longer eligible for claiming ITC on expenditure for smart machinery, 5G system, information security products and services, and other income tax incentives granted for procurement of machinery and equipment.</li> </ol> </li> <li>3. ITCs provided under the preceding two paragraphs, combined with ITCs obtained from other sources (e.g. R&amp;D ITC) shall not exceed 50% of CIT payable. However, this threshold does not apply to companies utilizing last-year ITCs that do not have a ceiling as stipulated in other regulations.</li> </ol>
Effective tax rate	<p>Refers to ratio of actual CIT paid by a Taiwan company as a percentage of annual taxable income for the current year. That is, foreign tax credit, Mainland China tax credit and ITCs shall be deducted from Taiwan CIT payable.</p>

**PwC Analysis:**

Based on our observation of development strategies of critical industries in different countries, key emphasis is placed on ensuring autonomy and stability of supply chain, with introduction of preferential treatment to compete for dominance in next-generation technology, including provision of significant subsidies and expansion of ITCs granted. Using Korea as an example, large enterprises engaged in IC semiconductor, electric vehicle battery technology and vaccine development may claim up to 40% of R&D expenditure and 10% of machinery & equipment cost as ITCs. Likewise, key industries in Taiwan, such as IC semiconductor, 5G mobile communication network, and electric vehicle, etc., are expected to play critical roles in global economy. As such, the Taiwan government introduced tax incentives to strengthen Taiwan's competitive advantage in the global supply chain.

**PwC Reminder:**

1. With respect to newly added ITC for procurement of machinery and equipment used in advanced manufacturing process, although there is no ceiling associated with the acquisition cost, the creditable amount is capped at 30% of CIT payable in the current taxable year. In addition, both ITCs involving forward-looking innovative R&D expenditure and procurement of machinery and equipment used in advanced manufacturing process shall be credited against CIT payable in the current taxable year, and cannot be carried forward to subsequent years.
2. Machinery and equipment used in advanced manufacturing process does not include relevant software/hardware and technology (service) of 5G system or information security products or services. Where companies purchase software/hardware of smart machinery, 5G system, or information security products/services, companies may elect to adopt ITCs provided under either Article 10-1 or Article 10-2 of the Statute. However, companies cannot choose to adopt Article 10-2 of the Statute for smart machinery, but adopt Article 10-1 of the Statute for 5G system and other expenditure.
3. Whereas, if a company fulfills the criteria for forward-looking innovative R&D ITC prescribed under Article 10-2 of the Statute, but procurement of smart machinery does not fulfill the criteria of ITC for machinery and equipment used in advanced

manufacturing process prescribed under Article 10-2 of the Statute, it may still apply Article 10-1 of the Statute for procurement of smart machinery.

4. ITCs for procurement of machinery and equipment used in advanced manufacturing process and forward-looking innovative R&D expenditure described in the preceding paragraphs, combined with ITCs obtained from other sources shall not exceed 50% of CIT payable. However, the above shall not apply for companies utilizing last-year ITCs that do not have any ceiling under other laws and regulations.

Ministry of Finance and Ministry of Economic Affairs officially announced amendments to “Regulation Governing Companies or Limited Partnerships Claiming ITC on Expenditure for Smart Machinery, 5G System, and Information Security Products or Services”

The Legislative Yuan passed third reading of amendments to Statute for Industrial Innovation in January 2022. In addition to extending the expiry date for claiming ITC on expenditure for smart machinery and 5G system to 31 December 2024, expenditure for information security products or services is eligible for ITC from 1 January 2022 onwards. The sub-regulation “Regulation Governing Companies or Limited Partnerships Claiming ITC on Expenditure for Smart Machinery, 5G System, and Information Security Products or Services” has been concurrently amended. Salient points of the amendment include explicitly defining the definition and scope of information security products, assessing ITC applicable period based on the year of completion of delivery or provision of service, additional request for evidence of payment and supporting documents for self-manufactured or contract manufactured products. Please refer to the below link for detailed information:

<https://www.pwc.tw/zh/publications/taiwan-tax-news/tax-news-202205.html>

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