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Taiwan Tax Update

January 2024

Income Tax

Tax treaty between Taiwan and South Korea entered into force on December 27, 2023 and took effect starting January 1, 2024

In 2021, Taiwan and South Korea signed an Agreement for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income ("TW-KR DTA"). By December 27, 2023, both parties notified the other party in writing regarding completion of procedures required for entry into force of the tax treaty, which took effect starting January 1, 2024. The salient points are as follows:

Scope	Users	Residents: Individuals and enterprises that qualify as residents according to respective tax regulations of Taiwan and South Korea.
	Type of tax	Income tax
Main tax reduction or exemption measures	Business profits	A Taiwanese or South Korean enterprise operating in the other territory which does not trigger a "permanent establishment" can obtain income tax exemption treatment for its "business profits".
	Investment income	1. Dividends: Limited to 10% tax rate 2. Interest: Limited to 10% tax rate; certain types of interest can be exempt from income tax 3. Royalties: Limited to 10% tax rate
	Capital gains	Gain from sale of shares is in principle tax exempt. However, if a resident of a territory at any time during the twelve-month period preceding the share sale held directly or indirectly at least 25% of the share capital of the company in the other territory, such capital gain may be taxable in the other territory.

		Additionally, if over 50% of the value of the shares is directly or indirectly derived from real estate in the other territory, capital gain from share sales may be taxable in the other territory.
Dispute resolution	Mutual agreement	Residents of a territory that face dispute regarding the use of this tax treaty, dispute regarding transfer pricing corresponding adjustments, or other double taxation related issues can, within a certain time frame, apply with the competent authority of that territory for usage of mutual agreement procedures to resolve the dispute. It may also consider to use advanced pricing agreement to reduce future audit risk and increase tax certainty.

PwC Reminder:

The TW-KR DTA took effect starting tax year 2024. For income subject to withholding tax (e.g. dividends, interest, royalties), the TW-KR DTA shall be effective for amounts payable after January 1, 2024. It is advisable for enterprises conducting cross border transactions or investment to evaluate whether they have income which is eligible for tax reduction or exemption measures under the TW-KR DTA. Enterprises can reduce tax costs and avoid double taxation upon receipt of approval from the tax authority in response to tax mitigation application submitted using TW-KR DTA.

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