

# Taiwan Tax Update

August 2024

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## Income Tax

Amendments to Income Tax Act were promulgated on August 7, 2024, whereby withholding tax obligators are now defined as juristic persons

Salient points of amendments to the Income Tax Act are as follows, with implementation date to be determined separately by the Executive Yuan:

1. The withholding tax (“WHT”) obligator is changed from a natural person to the juristic person making the payment, e.g. profit-seeking enterprise, organization, institution, etc.
2. When paying non-residents, i.e. foreign individuals or profit-seeking enterprises without a fixed place of business in Taiwan, the amendment allows for a 5-day extension to the WHT payment and WHT statement/return filing and issuance deadline in the event 3 or more consecutive days of national holiday falls within the original 10-day deadline.
3. Penalties for failing to file and issue WHT statement within the stipulated deadline has been amended, which allows the tax authority to have discretion when imposing actual penalty, as long as it is within a given range, depending on the severity of each specific violation.

### PwC Analysis:

1. Under the current withholding tax system, the WHT obligator is a natural person, e.g. responsible person of profit-seeking enterprise, or department head of organization or institution. The amendment changes the WHT obligator to the juristic person making the payment, e.g. profit-seeking enterprise, organization, institution, etc. to ensure rights and responsibilities are aligned.

- When the WHT obligator pays income to non-residents which is subject to WHT, the current regulations require the WHT obligator to pay WHT, and file and issue WHT statement/return within 10 days of payment. The amendment adds a provision stating that if the 10-day deadline includes 3 or more consecutive days of national holiday (e.g. Lunar New Year holiday), the deadline can be extended by 5 days (in line with WHT statement/return filing and issuance deadline for payment to tax residents), to alleviate the time pressure and compliance burden.

### Tax incentives

Amendments to Act for Development of Small and Medium Enterprises were promulgated on August 7, 2024

The salient points are as follows:

<b>Increased tax deduction for salary expenses</b>	Increased Hirings	Small and medium enterprises (“SMEs”) that hire additional entry-level Taiwanese nationals aged 24 and below, or aged 65 and above, that reach a prescribed headcount, and result in an increase to overall salary expense of the SME, can deduct up to 200% of the salary expense of additional hires from current year taxable income of the SME.
	Increased Salaries	SMEs that increase the average salary level of entry-level employees that are Taiwanese nationals may deduct up to 175% of increased salary expense (excluding increased salary expense due to increase in statutory minimum wage) from current year taxable income of the SME.
<ul style="list-style-type: none"> <li>● <b>Applicable retroactively from January 1, 2024, with expiry date set at December 31, 2033.</b></li> <li>● Salaries that are already included in the “Increased Hirings” category cannot also claim tax incentive under the “Increased Salaries” category.</li> </ul>		

<b>R&amp;D tax credit</b>	Eligible users	Companies and limited partnerships (newly added) that qualify as SMEs
	Tax credit rate	<ul style="list-style-type: none"> <li>● Tax credit limited to 15% of expenditure, which can only be creditable against current year income tax payable; or</li> <li>● Tax credit limited to 10% of expenditure, creditable against income tax payable for 3 consecutive years starting from the year the R&amp;D expenditure was incurred.</li> </ul>
	Tax credit threshold	Tax credit shall not exceed 30% of current year income tax payable
	Expiry date	<b>Extended to December 31, 2033</b>
<b>Tax deferral of income</b>	Transfer of intellectual property rights	For SMEs and individuals that transfer intellectual property (“IP”) rights to companies that are not listed, traded-over-the-counter, or traded on the emerging stock market, and who receive newly issued shares in exchange, relevant property transaction gain can be excluded from taxation in the current year, and taxed later when the shares are actually transferred, with capital gain calculated as market value of shares transferred less costs associated with acquiring the shares.
	Expiry date	<b>Extended to December 31, 2033</b>

**PwC Analysis:**

1. Regarding applicability of increased salary expense deduction for “Increased Hirings” and “Increased Salaries” categories, this amendment removes the threshold of "economic indicators reaching a certain level" and "start-up or capital increase reaching a certain investment amount”, which assists SMEs to upraise employee salary level and diversify talent utilization. However, both tax incentives are limited to entry-level employees. The definition of entry-level employees will likely be set at regular wage of 62,000 TWD or less, pending



資誠

announcement of further sub-regulations by the Ministry of Economic Affairs and Ministry of Finance.

2. Additionally, please note that both tax incentives for salary expenses can be applied retroactively from January 1, 2024. Enterprises can begin preparing relevant documents based on eligibility for tax incentives. However, the SME can only choose to adopt one of the two tax incentives granted for salary expense, i.e. if increased salary payment amount has already claimed increased tax deduction under "Increased Hirings" category, it cannot simultaneously count towards "Increased Salaries" category.

## PwC Taiwan Contacts

### Corporate Income Tax and Indirect Tax Services

Jason Hsu (Leader)  
+886-2-2729-5212  
jason.c.hsu@pwc.com

Li-Li Chou  
+886-2-2729-6566  
li-li.chou@pwc.com

Rosamund Fan  
+886-2-2729-6077  
rosamund.fan@pwc.com

Sam Hung  
+886-2-2729-5008  
sam.hung@pwc.com

Jack Hwang  
+886-2-2729-6061  
jack.hwang@pwc.com

Pei-Hsuan Lee  
+886-2-2729-5207  
pei-hsuan.lee@pwc.com

Alvis Lin  
+886-2-2729-5028  
alvis.lin@pwc.com

Yen-Tan Tsai  
+886-2-2729-6997  
yen-tan.tsai@pwc.com

Ying-Hsun Liu  
+886-2-2729-6258  
ying-hsun.liu@pwc.com

Luke Huang  
+886-2-2729-5955  
luke.huang@pwc.com

Audrey Chen  
+886-2-2729-5696  
audrey.chen@pwc.com

Li-Chui Hung  
+886-2-2729-6773  
li-chui.hung@pwc.com

Jefferson Ouyang  
+886-2-2729-5280  
jefferson.ouyang@pwc.com

### International Tax Services

Elaine Hsieh  
+886-2-2729-5809  
elaine.hsieh@pwc.com

Patrick Tuan (China Tax)  
+886-2-2729-5995  
patrick.tuan@pwc.com

Peter Su (US Tax)  
+886-2-2729-5369  
peter.y.su@pwc.com

Paulson Tseng (EU Tax)  
+886-2-2729-5907  
paulson.tseng@pwc.com

Shing-Ping Liu (ASEAN Tax)  
+886-2-2729-6661  
shing-ping.liu@pwc.com

CY Hsu (China Tax)  
+886-2-2729-5968  
cy.hsu@pwc.com

Tim Pao (India Tax)  
+886-2-2729-3928  
tim.pao@pwc.com

Chia-Ying Chung  
+886-2-2729-6665  
chia-ying.chung@pwc.com

### Transfer Pricing & BEPS Services

Lily Hsu  
+886-2-2729-6207  
lily.hsu@pwc.com

Elliot Liao  
+886-2-2729-6217  
elliott.liao@pwc.com

Hsiang-Chin Fan  
+886-2-2729-6669  
hsiang-chin.fan@pwc.com

### Financial Services

Richard Watanabe  
+886-2-2729-6704  
richard.watanabe@pwc.com

Jessie Chen  
+886-2-2729-5360  
jessie.chen@pwc.com

### Mergers & Acquisitions Tax

Elaine Hsieh  
+886-2-2729-5809  
elaine.hsieh@pwc.com

Shing-Ping Liu  
+886-2-2729-6661  
shing-ping.liu@pwc.com

### Family Business & Private Wealth Services

Sam Hung  
+886-2-2729-5008  
sam.hung@pwc.com

Alvin Cheng  
+886-2-2729-5098  
alvin.cheng@pwc.com

### Tax Litigation Services

Alvis Lin  
+886-2-2729-5028  
alvis.lin@pwc.com



### Corporate Secretarial Services

Jack Hwang  
+886-2-2729-6061  
jack.hwang@pwc.com

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