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Taiwan Tax Update

October 2024

Tax Incentives

Ministry of Economic Affairs announced draft amendments to the Statute for Industrial Innovation to encourage industries to invest in AI upgrades and net-zero transformation, and to expand funding channels for startups

The Ministry of Economic Affairs announced draft amendments to the Statute for Industrial Innovation on October 4, 2024. Salient points are as follows:

1. Encourage industries to take advantage of tax incentives through active investments to boost competitiveness

   In addition to investment tax credits originally granted for investments in smart machinery, 5G network, and cyber security products or services as outlined in Article 10-1 of the Statute for Industrial Innovation, the proposed amendment further incorporates artificial intelligence (“AI”) products or services, and energy conservation and carbon reduction into the investment pool eligible for investment tax credit. The ceiling of applicable investment is increased from 1 billion TWD to 1.8 billion TWD, and the applicable investment tax credit period is from January 1, 2025, to December 31, 2029.

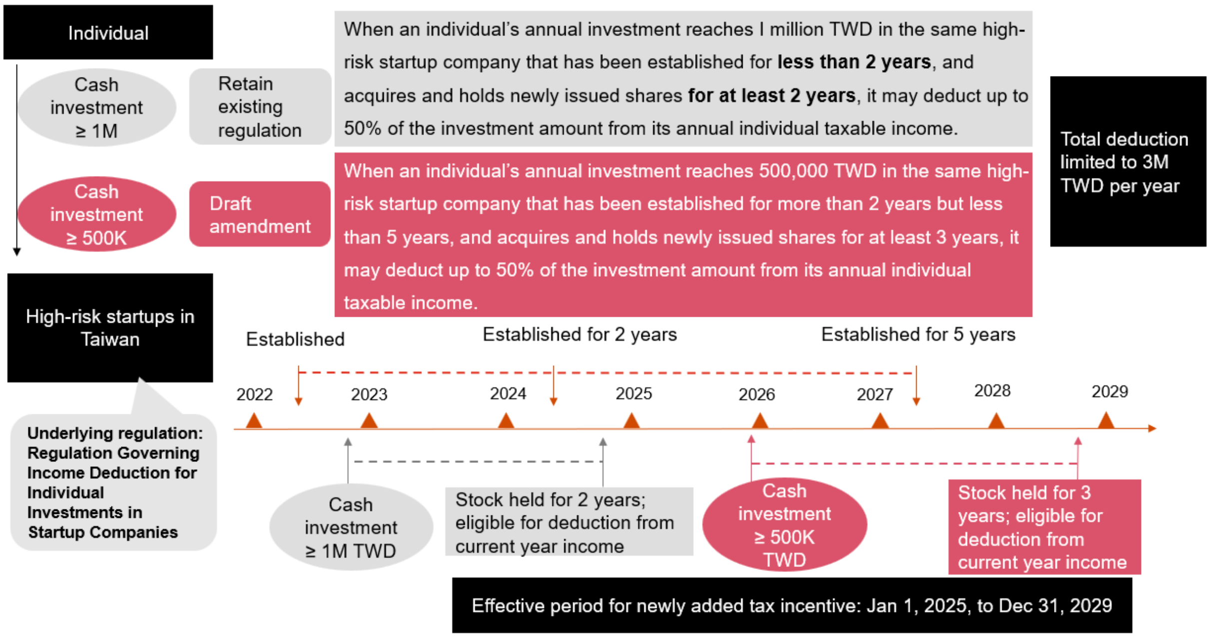
2. Protect critical technology from leaking out

   Amend circumstances where companies engaging in foreign outbound investments are required to obtain prior approval from the central competent authority to include investments in specific countries or regions, specific industries or technologies, or investments reaching a certain amount. Relevant details will be specified in underlying regulations.

3. Promote investment in startups

- Lower the paid-in capital threshold for venture capital limited partnerships to qualify for pass-through taxation, and alter the proportion and investment amount required for startup companies (please refer to attached table below).
- Introduce a new tax incentive for cash contribution by individuals who invest at least 500,000 TWD in high-risk startup companies that have been established for more than 2 years but less than 5 years, whereby the individual can deduct the investment amount from its individual taxable income (please refer to illustrative explanation below).

Year	Agreed capital contribution	Paid-in capital (A)	Investment requirement
Year of incorporation	150 million TWD		
2nd year	150 million TWD		1. Usage of fund and domestic investment **(C)** reaches 50% of total accumulated investment amount for the current year **(B).**
3rd year		50 million TWD	1. Same as item 1 above 2. Accumulated investment in startup companies **(D)** : ➢ Reaches 50% of paid-in capital in the current year **(A)**, or ➢ Reaches 200 million TWD and 20% of paid-in capital in the current year **(A)**.
4th year		100 million TWD	1. Same as item 1 above. 2. Accumulated investment in startup companies **(D)** : ➢ Reaches 50% of paid-in capital in the current year **(A)**, or ➢ Reaches 300 million TWD and 30% of paid-in capital in the current year **(A)**.
5th year		150 million TWD	1. Same as item 1 above. 2. Accumulated investment in startup companies **(D)** : ➢ Reaches 50% of paid-in capital in the current year **(A)**, or ➢ Reaches 400 million TWD and 40% of paid-in capital in the current year **(A)**.
6th year ~ 10th year			1. Same as item 1 above 2. No specific additional requirement.



PwC Perspective:

1. Investment tax credits provided under Article 10-1 of the Statute for Industrial Innovation is set to expire on December 31, 2024. To encourage industries to continuously invest in smart machinery upgrade, take advantage of 5G network application opportunities and focus on cyber security protection, in addition to retaining existing tax incentive items, the draft amendments introduce two new investment tax credit items: AI products or services, and energy conservation and carbon reduction. This is to encourage enterprises to proactively invest in enhancing industrial competitiveness in response to the rapid development of AI applications, global trend towards carbon reduction, and Taiwan's goal to achieve net-zero emission by 2050.

2. Existing regulations only require companies engaging in outbound foreign investment to obtain prior approval from the central competent authority where their investment amount reaches a certain threshold (1.5 billion TWD). However, investments that do not meet the set threshold, but involves specific countries, regions, industries, or technologies cannot be effectively managed. To prevent outflow of critical technology which could impact industrial competitiveness, or

inbound investment by countries or enterprises that pose a threat to national security, the draft amendments are hereby proposed. Going forward, foreign outbound investments in specific countries or regions, specific industries or technologies, or reaching a certain threshold must be approved by the central competent authority in advance. Once the draft amendment is passed, prior approval for foreign outbound investments will no longer be limited to those reaching the prescribed investment threshold. Therefore, companies should assess whether prior approval is required before evaluating foreign outbound investments to avoid potential penalties or revocation of foreign outbound investment.

3. To encourage venture capital limited partnerships to accelerate investments in startups and to foster a domestic innovation and entrepreneurship ecosystem, draft amendments are made to lower the paid-in capital threshold for venture capital limited partnerships to qualify for pass-through taxation. The proposed reduction in paid-in capital threshold is from existing 300 million TWD to 150 million TWD, whereas, the proposed increase to investment in startups should reach 50% of total accumulated investment amount in the current year.

4. In addition to retaining existing investments which allow for tax incentives, tax incentives allowing individual angel investors to deduct their investment amounts from individual taxable income will be expanded. Considering the difference in types of startups in different industries, some requiring longer angel investment periods, high-risk startups established for more than 2 years but less than 5 years are now also eligible for investment. If the investment amount reaches 500,000 TWD and newly issued shares are held for at least 3 years, the individual investor can also qualify for tax incentives. This allows companies to raise fund and accumulate capital, and also benefits companies with medium to long term funding requirement.

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