

# Taiwan Tax Update

November 2024

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## Income Tax

Ministry of Finance (“MOF”) released Tax Ruling stating minor violation resulting in late payment of corporate income tax is still eligible for usage of loss carry forward

On November 1, 2024, the MOF released a Tax Ruling stating that if corporate income tax (“CIT”) due is not paid by its stipulated deadline (including for dissolution or liquidation CIT returns), but CIT due is made up immediately before late payment surcharge is imposed by the tax office, this act is considered a minor violation, and underlying profit-seeking enterprise is still eligible for usage of loss carry forward, as if CIT return and CIT due was filed and paid respectively before its stipulated deadline .

### PwC Analysis:

If a profit-seeking enterprise intends to offset assessed tax loss from past 10 years against current year taxable income, such profit-seeking enterprise should (1) use blue return or have its CIT return certified by a CPA; and (2) file CIT return (including dissolution or liquidation CIT returns) within the stipulated deadline. Definition of “CIT return filed within stipulated deadline” refers to CIT return being filed **and** CIT due being paid within the stipulated deadline. However, this new Tax Ruling provides a more lenient interpretation, i.e. CIT return is still considered filed within stipulated deadline if a profit-seeking enterprise has committed a minor violation resulting in late payment of CIT due, as long as late payment surcharge (1% late payment surcharge on CIT payable for every 3 days overdue) is not yet imposed by the tax office. This Tax Ruling is also applicable for cases which have not yet been assessed by the tax office.

## Tax incentives

Ministry of Economic Affairs (“MOEA”) announced draft amendments to sub-regulations under Act for Development of Small and Medium Enterprises (SMEs)

Amendments to Act for Development of SMEs was promulgated on August 7, 2024, and the applicable period for tax incentives is from January 1, 2024, to December 31, 2033. Please refer to August 2024 edition of Taiwan Tax Update for more detail.

The MOEA has announced draft amendments to relevant sub-regulations recently, including “Standard Governing Definition of SMEs”, “Regulation Governing R&D Investment Tax Credits for SMEs”, “Regulation Governing Increased Tax Deduction for Salary Expense Derived from Increased Hiring by SMEs”, and “Regulation Governing Increased Tax Deduction for Salary Expense Derived from Salary Increase by SMEs”. Salient points are listed below:

Item	Explanation
<b>Definition of SMEs</b>	SMEs not only include companies, i.e. <b>limited partnerships are newly added</b> , with paid-in capital or capital contribution remaining at less than NT\$ 100 million, or headcount from regular hires remaining at less than 200 employees.
<b>Expenditure eligible for R&amp;D tax credit</b>	<ol style="list-style-type: none"> <li>Expenditures incurred for education and training of full-time R&amp;D personnel which involves R&amp;D know-how is added as another item eligible for R&amp;D tax credit.</li> <li>Definition of the form, scope, and supporting documents required for claiming education and training R&amp;D tax credit: <ol style="list-style-type: none"> <li>Education and training, including self-conducted, outsourced, or joint training, etc., should be necessary for the execution of R&amp;D programs, and should assist in enhancing R&amp;D technique or professional competence of full-time R&amp;D personnel assigned to execute the R&amp;D programs.</li> <li>Education and training expenditures include instructor fee,</li> </ol> </li> </ol>

	<p>travel expense of instructors or trainees, training expense, training material expense, insurance fee, meal allowance during training period, and training venue rental expense.</p> <p>c. Supporting documents: detail of education and training program, list of trainees, and other documents related to implementation of education and training program.</p>
<b>Increased tax deduction for salary expense due to increased hiring</b>	<ol style="list-style-type: none"> <li>1. SMEs that additionally hire more than two entry-level Taiwanese nationals aged 24 and below or aged 65 and above, resulting in an increase to overall salary expense of the SME, can deduct up to 200% of salary expense of additional hires from current year taxable income of the SME.</li> <li>2. Definition of entry-level employee: refers to Taiwanese employees whose average monthly regular wage does not exceed a “prescribed amount”, and who signs a non-fixed term employment contract with the SME. This includes full-time employees, and part-time employees aged 65 and above. The aforesaid “prescribed amount” will be announced annually by the central competent authority after referring to the salary survey result (by occupation) published by the Ministry of Labor.</li> <li>3. Definition of regular wage: refers to base salary, fixed allowance and bonus which are paid monthly; where regular wage is paid in kind, actual market price of the goods should be used.</li> <li>4. Calculation of additional headcount from increased hiring: average monthly headcount of entry-level employees for the current year has increased by more than 2 employees compared to the average monthly headcount of entry-level employees in the previous fiscal year.</li> <li>5. Calculation of total salary expense: total salary expense for the current year (excluding salary expense of additional</li> </ol>

	<p>headcount) exceeds total salary expense for the previous year.</p> <p>6. Salaries of additional headcount must not be lower than minimum wage announced by the Ministry of Labor.</p>
<b>Increased tax deduction for salary expense derived from salary increase</b>	<p>1. 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 those due to increase in statutory minimum wage) from current year taxable income of the SME.</p> <p>2. Definition of entry-level employee and regular wage are the same as that laid out above.</p> <p>3. Calculation of average salary level: "Total regular wage and daily (hourly) salaries of entry-level employees for the current year" ÷ "Sum of entry-level employee headcount per month for the current year". The number of employee headcount and associated salaries which have applied increased tax deduction for salary expense due to increased hiring should be excluded. The average salary level for the current year should exceed the average salary level for the previous year.</p>

**PwC Reminder:**

1. The tax incentives prescribed under the amended Act for Development of SMEs is applicable retroactively from January 1, 2024. For SMEs with non-calendar year end, whereby a part of fiscal year 2023 falls within 2024 calendar year, e.g. for SMEs with fiscal year ending on March 31 (fiscal year 2023 covers April 1, 2023 to March 31, 2024), if there are applicable tax incentives during the period from January 1, 2024 to March 31, 2024, such SMEs could apply for applicable tax incentives during the intermediate period (i.e. within 6 months from the official announcement of the amended sub-regulations). Applications submitted after aforesaid period are no longer eligible.
2. With respect to increased tax deduction (i.e. 200%) for salary expense due to increased hiring, for employees who convert from fixed-term employment contract

to non-fixed term employment contract, or part-time employees aged 24 and below who convert to full-time employees, these are all considered as increased hiring. Please note that additional job opportunities from increased hiring must be in Taiwan. Furthermore, the existing regulation originally excludes dispatched labor industry from applying the two aforesaid increased tax deduction due to dispatched labor and dispatching entity typically entering into fixed-term employment contract (e.g. 1-year contract). However, given that the existing Labor Standards Act already stipulates employment contract for dispatched labor should be non-fixed term contract to protect the rights of dispatched labor, the draft amendment now allows dispatched labor industry to be eligible for the two aforesaid increased tax deduction.

## **Value Added Tax**

### **MOF announced draft amendment to Business Tax Threshold for Small-scale Business Entities**

On October 23, 2024, the MOF announced draft amendments to Business Tax Threshold for Small-scale Business Entities. Currently, business entities whose monthly sales do not exceed NT\$ 80,000 (for goods) or NT\$ 40,000 (for services) is exempt from business tax assessment.

According to the draft amendment, the aforesaid threshold for monthly sales of goods and services will be increased to NT\$ 100,000 and NT\$ 50,000 respectively, which is expected to take effect from January 1, 2025 onwards.

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