

Taiwan Tax Update

December 2024

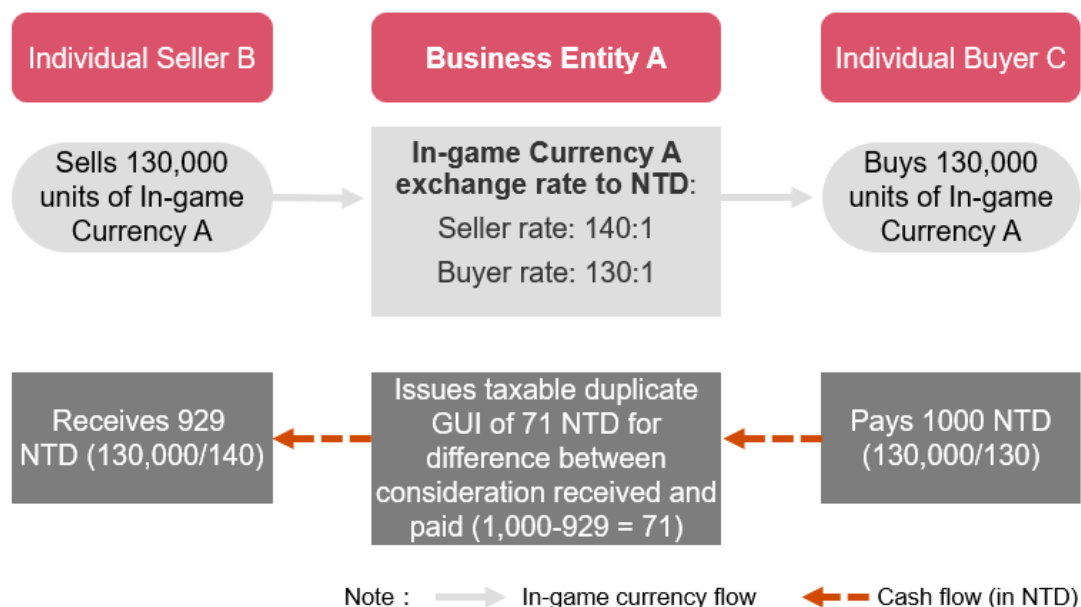
Value-added Tax

Ministry of Finance (“MOF”) issued tax ruling providing guideline for levying VAT on net consideration received by business entities providing in-game currency trading services

Business entities providing in-game currency trading services to players of online games will be subject to VAT on the difference between the consideration received from buyer and paid to seller if they meet the following conditions. Such business entities are also required to issue and retain a duplicate Government Uniform Invoice (“GUI”) for reference purposes:

1. Both buyer and seller of in-game currency are natural persons, and the business entity has a verification mechanism for verifying the transacting party’s real name and identity.
2. The online trading platform discloses the exchange rate for in-game currency and New Taiwan Dollar (“NTD”) applicable to both buyer and seller.
3. The requirement for the seller to deliver the in-game currency and the buyer to make the payment upfront is to guarantee performance of the contract.
4. Detailed trading record and information on consideration received from buyer and paid to seller, etc. can be provided.

An illustrative example is shown below:



According to the MOF ruling, the following information must be provided:

1. Detailed trading record: This should include identity information of both buyer and seller (e.g., ID number of buyer and seller or financial accounts linked to buyer/seller identity) for each transaction, transaction date for consideration received and paid, name and quantity of in-game currency, consideration received and paid for buy/sell transaction, and amount of service fee collected. Relevant supporting documents should also be retained.
2. Information on consideration received and paid and transaction service fee: For example, payment and receipt status of financial accounts, checks, remittance slips, or electronic payment accounts of the buyer, seller, and business entity.

PwC Analysis:

1. When a business entity is engaged in trading of in-game currency, from transaction form perspective, Business Entity A handles both cash flow (purchase and sale price) and goods flow (in-game currency), which is similar to resale of In-game Currency A purchased (buy-sell model). If this is viewed as a buy-sell model,

total sales made by Business Entity A to Individual Buyer C should form the basis for calculating output VAT. However, in practice, where a C2B2C transaction model is adopted, Business Entity A is unable to obtain an input GUI from Individual Seller B for input VAT credit purpose, which would increase VAT burden of Business Entity A. The MOF's new ruling takes into account industry characteristics and uniqueness of the C2B2C transaction model for in-game currency to rationalize the VAT burden of the taxpayer. This new ruling applies to cases that have not yet been assessed at the time the ruling was issued, i.e. December 6, 2024.

2. If Seller B is a business entity (B2B2C model), since Business Entity A can obtain an input GUI for input VAT credit purpose, Business Entity A should issue a GUI for 1,000 NTD received from Individual Buyer C, and obtain an input GUI for 929 NTD from Corporate Seller B to claim input VAT credit. The final VAT burden is the same in a B2B2C model and C2B2C model.

MOF amends Business Tax Threshold for Small-Scale Business Entities

On December 12, 2024, the MOF announced amendment to the “Business Tax Threshold for Small-Scale Business Entities”. Business entities that supply goods with monthly sales of 100,000 NTD or less, and those that supply services with monthly sales of 50,000 NTD or less, will be exempt from business tax. These changes will take effect from January 1, 2025.

Income Tax

Increased tax deduction for salary expense related to new hire of domestic entry-level employees aged 24 and under, or aged 65 and above, and for increased salary expense of domestic entry-level employees must be included in basic income of a profit-seeking enterprise starting from January 1, 2024

New tax incentives under the “Act for Development of Small and Medium Enterprises” were promulgated in August 2024, whereby small and medium enterprises with new hire of domestic entry-level employees or who increased the salary level of such employees is eligible for additional tax deduction for up to 200% and 175% of the

increased salary expense respectively. Please refer to August 2024 edition of Taiwan Tax Update for more detail. When calculating the Alternative Minimum Tax (“AMT”), the increased tax deduction (i.e., the extra 100% or 75%) should be added back to taxable income to determine the basic income subject to AMT.

Tax incentives

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

The “Act for Development of Small and Medium Enterprises” was amended and promulgated on August 7, 2024. The MOEA and MOF announced the amended sub-regulations on December 4, 2024, namely: “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”. The content of these sub-regulations is generally the same as the previously announced draft versions, with only minor amendments to exact wording used. For details on the draft versions, please refer to November 2024 edition of Taiwan Tax Update.

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