Taiwan Tax Update

June 2026

Income Tax

The Ministry of Finance ("MOF") issues ruling amending the calculation of deductible limits for entertainment expenses, donations and employee welfare expenses of professional investment companies earning tax-exempt investment income

The Ministry of Finance (MOF) has relaxed the rules governing the calculation of deductible limits for entertainment expenses, donations and employee welfare expenses of professional investment companies. Under the new ruling, tax-exempt investment income that is excluded from taxable income may also be included in the calculation base for these deduction limits. Previously, because investment income excluded from taxable income under Article 42 of the Income Tax Act ("ITA") had substantively been treated as tax-exempt, it could not be included in the calculation.

A comparison of the rules before and after the amendment is set out below.

Item	Before amendment	After amendment
Entertainment expenses – gains from trading securities	Deductible limit calculated based on net purchase and sale amounts.	Unchanged.
Entertainment expenses – investment income portion	(i) For short-term bills, the deductible limit is calculated under the rules applicable to businesses engaged in services or credit activities.	The deductible limit for all investment income is calculated under the rules applicable to businesses engaged in services or credit activities.

	(ii) Investment income excluded from taxable income may not be included in the calculation base.	
Donations	Deductible limit calculated based on taxable income.	Deductible limit calculated based on both taxable income and tax-exempt income
Employee Welfare	(i) Deductible limit calculated based on total operating revenue, including interest income from short-term bills. (ii) Tax-exempt dividends or earnings may not be included.	Deductible limit calculated based on total operating revenue, including interest income from short-term bills and tax-exempt dividends or earnings.

PwC Reminder:

Under the amended rules, professional investment companies may report higher deductible limits for entertainment expenses, donations and employee welfare expenses. The relevant costs and expenses should then be directly attributed or reasonably apportioned between taxable income and tax-exempt income, with deductions made accordingly under the Regulations Governing the Allocation of Costs, Expenses and Losses Related to Tax-Exempt Income.

This amendment is favorable to taxpayers. It applies to cases that had not been assessed as of the date of issuance of the ruling, i.e. 3 June 2026. Professional investment companies should review their filing positions and consider whether to apply for an amendment or correction, depending on their circumstances.

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