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Taiwan Tax Profile

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KPMG Asia Pacific Tax Centre

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1 Corporate Income Tax

Corporate Income Tax

Corporate income tax

Tax Rate

The corporate income tax rate is 17 percent and the threshold for subjecting a company to corporate income tax is NTD 120,000.

A resident company's earnings generated in a year and remaining undistributed by the end of the following year are subject to 10 percent surtax.

In addition, resident and non-resident companies with a fixed place of business or a business agent in Taiwan are subject to alternative minimum tax. The alternative minimum tax rate is between 12 percent and 15 percent.

Residence

The residence of a company for Taiwan tax purposes is determined in accordance with its place of incorporation or location of company seat (i.e. head office). A company which is incorporated in accordance with the Company Law in Taiwan or situates its seat in Taiwan is considered a resident for Taiwan tax purposes.

It is expected that the tax authority will introduce a new rule regarding the tax residence of companies in the near future. This rule is expected to stipulate that companies registered outside Taiwan, but with management located in Taiwan, will be deemed to be headquartered in Taiwan, and consequently subject to Taiwan income tax.

Compliance requirements

Taiwan has an 'official assessment system' for income tax return filing, which involves the tax authority reviewing income tax returns before issuing an official assessment.

Tax returns are due on the following dates:

Annual income tax returns:

- Due during the period 1 May until 31 May, for a company with an income tax year aligning with the calendar year
- Due five months after the year-end for companies with income tax years that do not align with the calendar year

Provisional income tax returns:

- Due during the period 1 September until 30 September for a company with an income tax year aligning with the calendar year
- Due in the ninth month of the income tax year for companies with income tax years that do not align with the calendar year

Provisional income tax return filing is not required by taxpayers meeting certain conditions.

International Withholding Tax Rates

Dividends paid to non-residents are subject to withholding tax of 20 percent. This rate may be reduced by a tax treaty (generally to between 5 percent and 15 percent).

Royalties paid to non-residents are subject to withholding tax of 20 percent. This rate may be reduced by a tax treaty (generally to between 5 percent and 15 percent).

Interest payments to non-residents are subject to withholding tax of 15 percent or 20 percent. This rate may be reduced by a tax treaty (generally to between 7 percent and 15 percent).

Salaries paid to non-residents are subject to withholding tax of 18 percent, with the exception of the following:

- (1) Salaries paid to civil servants employed by the government to work abroad - 5 percent of the portion of the total monthly payment exceeding NTD 30,000 is withheld.
- (2) Salaries not exceeding 1.5 times the monthly baseline salary as assessed by the Executive Yuan (with the exception of salary paid to the individuals described above in Subparagraph (1)) - 6 percent of the payment is withheld.

Income paid to non-residents from transactions in structured products is subject to withholding tax of 15 percent.

Other Taiwan sourced income paid to non-residents is subject to withholding tax of 20 percent.

Holding rules

Intercompany dividend distributions between resident companies are excluded from taxable income in the hands of the recipient company. However, dividends received by a resident company from its non-resident subsidiaries are taxable. In such cases, the foreign tax paid may be able to be claimed as a credit against the Taiwan tax liability.

There is no dividend stripping rule, participation exemption or substantial shareholdings exemption in Taiwan.

Tax Losses

Tax losses may be carried forward for 10 consecutive years if the taxpayer meets all of the following criteria:

- Maintains sound accounting books and supporting documents
- Files its blue tax return or has its tax return certified by a certified public accountant
- Files its annual tax return within the statutory time limit

Tax losses cannot be carried back.

Tax Consolidation / Group relief

Financial holding companies that hold 90 percent or more shares in a subsidiary may elect to file consolidated income tax returns, starting from the tax year when the 90 percent or more holding is held for the whole 12 months.

Furthermore, a company limited by shares that holds 90 percent or more shares in a subsidiary as a result of engaging in a merger, spin-off or acquisition (pursuant to specific regulation) may also elect to file consolidated income tax returns, starting from the tax year when the 90 percent or more holding is held for the whole 12 months.

The consolidated income tax returns shall include all eligible domestic subsidiaries. No prior permission is required for electing to file consolidated returns.

Transfer of shares

There is no separate capital gains tax in Taiwan for companies. Gains from the sale of qualified securities are exempt from income tax but subject to alternative minimum tax.

Gross proceeds received by the transferor of 'qualified securities' will also be subject to Security Transaction Tax.

Transfer of assets

On the transfer of land, the difference between the current assessed land value upon acquisition and the value upon subsequent disposal is subject to land value incremental tax.

Currently, the sale of land is exempted from income tax. However, if the land is acquired after Jan 1, 2016 or the following day of Jan 1, 2014 and sold within 2 years, tax for income derived from sale of land will be levied as follows:

- (1) 17% for a resident company
- (2) Tax rate for a non-resident company:
 - Holding period falls within one year: 45%
 - Holding period falls exceeding one year: 35%

For transactions of immovable property, the taxpayer shall report the transaction and pay deed tax. However if the land is located in an area where land value increment tax is assessed, the deed tax shall be exempted.

CFC rules	There are no CFC rules in Taiwan currently. However, the Government has included CFC rules as an upcoming tax reform issue to be considered.
Transfer Pricing	<p>Taiwan's transfer pricing regime adheres to the 'arm's length principle' and is based on US Internal Revenue and OECD transfer pricing guidelines.</p> <p>Entities are required to maintain supporting documentation for the transfer pricing positions taken, and provide this to the tax authority upon request.</p> <p>Taiwan's Advance Pricing Agreement (APA) regime allows enterprises meeting certain criteria to negotiate with the tax authority for an APA. An APA application should be made in the prescribed form before year-end of the first accounting period of the controlled transactions which are to be covered in the APA.</p> <p>Generally, an APA is valid for three to five years. Where an enterprise's business nature has not materially changed, a one-time, maximum five-year extension can be requested. However, there is no rollback provision in the APA program.</p>
Thin Capitalisation	In principle, a deduction for excess interest expense by a taxpayer will be denied if the taxpayer's debts are held with related parties and the debt-to-equity ratio exceeds 3:1.
General Anti-avoidance	Taiwan's main anti-avoidance rules include substance-over-form rules.
Anti-treaty shopping	No anti-treaty shopping provisions exist in Taiwan tax law. In practice, there is more emphasis on the substantive purpose behind transactions.
Other specific anti-avoidance rules	None
Rulings	Taxpayers may apply for advance tax rulings to obtain certainty regarding proposed cross-border transactions.
Intellectual Property Incentives	None, but see below for relevance to R&D incentive application.

R&D Incentives

Taiwan's R&D tax incentive regime allows up to 15 percent of the R&D expenditure incurred by a company in a specific tax year to be claimed by the company as a tax credit. The amount of the tax credit is limited to 30 percent of the income tax payable for current year. There are various R&D tax incentives applicable to specific industries.

Owning intellectual property is useful in demonstrating that a taxpayer has highly innovative R&D activities, and can help to substantiate an application for a R&D incentive.

Other incentives

To promote economic development in certain industries and facilitate operational efficiency (by means of corporate restructuring), the Government offers a series of tax incentives. These incentives relate to various industries and circumstances and include:

- Tax holidays
- Deferred tax on investment in technology
- Investment tax credits
- Accelerated depreciation
- Business mergers and acquisitions privileges

Hybrid instruments

There is no hybrid instruments regime in Taiwan.

Hybrid entities

There is no hybrid entities regime in Taiwan.

Special tax regimes for specific industries or sectors

The Structure for Industrial Innovation is enacted for the furtherance of industrial innovation, improvement of the industrial environment, and enhancement of industrial competitiveness. The term "industries" refers to agricultural, industrial, and service businesses.

There are also special regimes for specific industries or sectors, such as:

- The Biotechnology and new Pharmaceuticals Industry
- Private participation in the Transportation and Communication Infrastructure Project
- Foreign profit-seeking enterprises conducting goods storage and/or simple processing operations in the Taiwan Free Trade Zone
- Small and medium enterprises (SMEs)

Related business factors

The typical forms of legal entities used for conducting business in Taiwan are:

- Limited company,
- Company limited by shares, and
- A branch office.

In general there no capital requirements for establishing a legal entity; except for some specific industries.

In respect of ownership requirements, 100 percent foreign ownership is generally allowed, with the exception of a restriction for Mainland China investors.

Foreign exchange control rules

The Central Bank of the Republic of China (Taiwan) imposes a foreign exchange limitation of USD 50,000,000 per year for business entities, with respect to any foreign exchange, both inward and outward, other than trading or service revenue. If the settlement of foreign exchange purchased or sold has exceeded USD 50,000,000 it may not be processed until receiving approval from the Central Bank this entails submitting the Declaration Statement along with evidencing documents through banking enterprises.

Any foreign exchange transactions of under NTD 500,000 would not be counted toward the limitation nor be necessary to declare.

2 International Treaties for the Avoidance of Double Taxation

In Force

Australia	Hungary	Malaysia	South Africa
Austria	India	Netherlands	Swaziland
Belgium	Indonesia	New Zealand	Sweden
Denmark	Israel	Paraguay	Switzerland
France	Kiribati	Senegal	Thailand
Gambia	Luxembourg	Singapore	United Kingdom
Germany	Macedonia	Slovak Republic	Vietnam

Source: Taxation Agency, Ministry of Finance

3 Indirect Tax (e.g. VAT/GST)

Indirect Taxes

Business tax is imposed on the sale of goods and services within Taiwan, as well as the importation of goods into Taiwan. There are two systems of Business tax, as follows:

- Gross Business Receipts Tax (GBRT) – used by financial institutions, special vendors of food and beverages, and small businesses
- Value Added Tax (VAT) – used by the remaining taxpayers

Standard Rate

The GBRT rate for special vendors of food and beverages is 15 percent or 25 percent, and for small business owners is 0.1 percent or 1 percent, depending on the nature of the particular business.

The GBRT rate for a financial institution's core business sales revenue from banking and insurance has increased from 2 percent to 5 percent as at July 1, 2014. For other core business sales revenue streams of financial institutions the GBRT rate is 2 percent. Non-core business sales revenue is subject to 5 percent GBRT or VAT (if the financial institution applies for a VAT system for its non-core business).

The standard rate of VAT is 5 percent. For the sale of goods or services in connection with exports, VAT is generally reduced to zero percent.

Certain goods and services are exempt from GBRT and VAT.

Further information

For more detailed information, refer to:

[KPMG Asia Pacific Indirect Tax Guide](#)

4 Personal Taxation

Income Tax

Personal income tax

Top Rate

The top rate of personal income tax in Taiwan is 45 percent and applies to taxable income in excess of TWD 10,000,000.

Personal income tax is levied on a territorial basis, that is, only Taiwan sourced income of both resident and non-resident individuals is subject to Taiwan income tax. The income of resident individuals derived from sources outside Taiwan is subject to alternative minimum tax.

Capital gains tax levied on the sale of stocks, applying to both Taiwan resident and non-resident individuals.

Social Security

Labour Insurance, Health Insurance, and Labour Pensions are payable in part by both employees and employers.

Further information

For more detailed personal taxation information, refer to:

[KPMG's Thinking Beyond Borders](#)

5 Other Taxes

Customs duty Customs duty is payable by the consignee or the holder of the bill of lading for imported goods. The duty payable is based on the dutiable value or the volume of goods imported. The dutiable value is calculated on the basis of the true transaction price.

Customs duty rates fall into two categories, as follows:

- General tariff rate
- Special rate applied to goods imported from countries and territories that offer reciprocal treatment to Taiwan.

Nowadays, almost all major trading partners of Taiwan can apply the special rate.

Excise duty Excise duties in Taiwan comprise commodity taxes, tobacco and liquor tax and specifically selected goods and services tax. Commodity tax is a single-stage sales tax, levied on taxable commodities at the time when such goods are dispatched from a factory or are imported. Different rates of commodity tax apply to different types of commodities and are based on the value or volume.

Tobacco and alcohol products, whether manufactured domestically or imported from abroad, are subject to tobacco and liquor tax. Tobacco shall be subject to tobacco health and welfare surcharge as well.

A specifically selected goods and services tax shall be imposed on a short-term real estate transaction and the sale, manufacture, and import of specifically selected goods or the sale of specifically selected services within the territory of the Republic of China.

Stamp duty Stamp duty is levied on the following documents and contracts executed within Taiwan, as follows:

- 0.4 percent of the receipt amount for cash receipts (excluding cheques)
- 0.1 percent of the contract value for a contractual agreement executed to perform a specific job or task
- 0.1 percent of the contract value for contracts for lien, sale, exchange, donation, or division of real property, which is submitted to the Government for registration of title
- TWD 12 per contract in respect of contracts for the sale of movable properties (regardless of contract value)

Property taxes

The prevailing land tax system includes:

- Land value tax – generally imposed at 1 percent of the assessed and publicly announced land value, with the highest tax rate at 5.5 percent
- Agricultural land tax – currently suspended
- Land value increment tax - levied on the current assessed land value increment from the transfer of land at rates of 20 percent to 40 percent. Tax reduction for long-term possession may be granted additionally.

In addition, Taiwan imposes 'house tax' and 'deed tax' on property.

Estate and Gift tax

Estate tax is based on all property transferred at death. The scope of estate tax covers the following:

- Property left by the deceased who was a Taiwanese citizen and regularly resided in Taiwan, regardless of whether the location of the property is within or outside Taiwan
- Property left by the deceased who was a Taiwanese citizen but resided outside Taiwan regularly, or who was not a Taiwanese citizen, only if the property is located within Taiwan.

The total estate is valued according to the property value prevailing at the time of death and is subject to a flat rate of 10 percent. However, there is an exemption threshold of TWD 12 million, and transfers of property under this value will not attract estate tax.

Gift tax is based on all property transferred and includes:

- Any gift made by a donor who is a Taiwanese citizen and regularly resides in Taiwan, irrespective of whether the property gifted is located within or outside Taiwan
- A gift made by a donor who is a Taiwanese citizen but resides outside Taiwan regularly, or who is not a Taiwanese citizen, only if the property given away is located in Taiwan.

Generally, the taxpayer is the donor; however, in certain circumstances the recipient is liable.

The total gift is valued according to the property value prevailing at the time of transfer and is subject to a flat rate of 10 percent. However, there is an exemption threshold of TWD 2.2 million per taxpayer per year, and transfers of property under this value will not attract gift tax.

Securities transaction tax (STT)

Securities transaction tax is imposed on the sale of certain types of securities. The applicable rates and securities are as follows:

- Share certificates issued by companies and certificates or receipts showing rights in share certificates - 0.3 percent of the transaction price
- Corporate bonds and other securities offered to the public which have been duly approved by the government - 0.1 percent of the transaction price.

However, in order to stimulate the bond market, the security transaction tax on corporate bonds and financial debentures are exempt from security transaction tax until 31 December, 2016.

Future Transaction Tax

Future transaction tax is imposed on trading of futures in the Taiwan Futures Exchange. The applicable rates and futures are as follows:

- Stock index futures contracts - 0.002 percent on the transaction price of the contract with effect from 1 April 2013 to 31 December 2015.
- Interest rate futures contracts:
 - 30 days interest rate futures - 0.0000125 percent on the transaction price of the contract
 - 10 years government bond futures - 0.000125 percent on the transaction price of the contract
- Option contracts or option contracts on futures - 0.1 percent based on the premium paid
- Gold futures - 0.00025 percent on the transaction price of the contract

Other taxes

- Vehicle license tax
- Amusement tax

6 Free Trade Agreements (FTA)

In force

- Panama
- Republic of Guatemala
- Republic of Nicaragua
- Republic of El Salvador
- Republic of Honduras
- Singapore
- New Zealand

In negotiation

None

Economic Cooperation Framework Agreement ("ECFA")

ECFA is a preferential trade agreement between Taiwan and Mainland China that aims to reduce tariffs and commercial barriers between the two jurisdictions.

Source: Taiwan's Department of Foreign Affairs and Trade

7 Tax Authority

Tax Authority

Taxation Agency, Ministry of Finance

<http://www.dot.gov.tw/dot/index.jsp>

Tax audit activity

The tax authority annually sets out specific criteria indicating the group of tax payers that may be subject to a tax audit for that year. The selection of taxpayers for audit is computed based on the specific criteria chosen.

Criteria for selecting a particular business for tax audit can include matters such as:

- The outcome of previous tax audits conducted against the business
- Whether the business has been audited in recent years
- Total income or certain expenses exceeding particular thresholds determined by the tax authority
- Who the particular CPA is that certified the tax return

Key focus areas for the tax authority in tax audits conducted in recent years have included:

- Transfer pricing, including management fees paid to related parties
- Related party loans
- Whether expenses and services rendered abroad by employees should be included within taxable service revenue
- Recognition of investment losses
- Purchase and use of intangible assets
- Nature and withholding of tax on royalties payments
- Deduction of tax losses of a dissolved companies
- Bad debt write-offs
- Obsolete inventory
- Expenses in relation to land and securities' transaction income
- Calculation of five year tax holiday incomes
- Tax credit for investment

Appeals

If a taxpayer is not satisfied with the tax office's assessment, it may lodge a petition by going through one or more stages of the 'administrative remedy procedures', as set out in consecutive order below:

- Recheck
- Administrative appeal
- Administrative lawsuit.

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