Investment in Taiwan

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Contents

Chapter 1

Overview of Taiwan

General Overview

Geography and Demographics

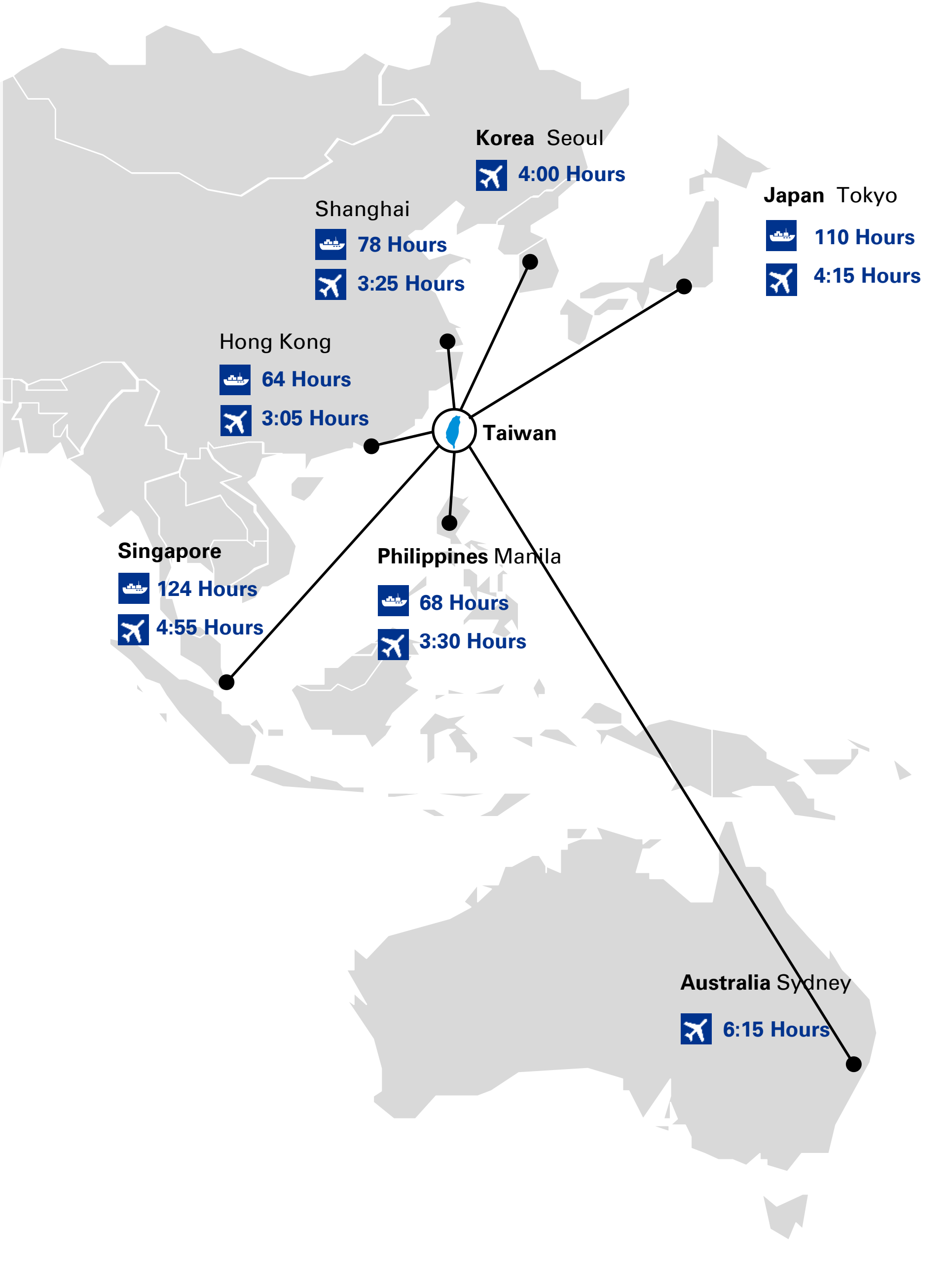
Superior Geographic location, the Heart of Asia-Pacific

Taiwan is located in the heart of the Asia-Pacific region, which puts it in an advantageous position to make use of global production resources and the global marketplace.

Technological Products Throughout the World

Taiwan has competitive advantages in the IT manufacturing industry; it is the second-largest IT hardware manufacturing country in the world. The production value of Taiwan's IC design accounts for about 20.7% of the world total, and its PC production value is third in the world.

In conclusion, World Economic Forum ranked an consecutive excellency of Taiwan's industry cluster.



OEM wafer production (14nm & 10nm realms)	IT hardware manufacturing country	Personal Computer (PC) production value	WEF Industry cluster development
1st	2nd	3rd	3rd

General Overview

Economics

Outstanding Rankings in International Rating Surveys and Superior Development Potential

According to the world competitiveness reports released in recent years, Taiwan is highly competitive and has development potential. The high competitiveness and innovation ability stem from the excellent technological infrastructure and talented human resources.

Ranking

2020 Global Competitiveness Report by the World Economic Forum (WEF):

- Ranked 4th in Asia
- Ranked 12th in the world

2020 Business Environment Risk Intelligence (BERI):

- Ranked 3rd in overall investment environment

Heritage Foundation and the Wall Street Journal "2020 index of Economic Freedom":

- Ranked 4th in the Asia-Pacific region
- Ranked 6th among the 184 countries

Company R&D expenditure investment levels:

- Ranked 3rd in the world

World bank "Doing Business 2020":

- Ranked 15th-easiest place to do business

2020 World Competitiveness issued by Lausanne-based International Institute for Management Development (IMD):

- Ranked 3th in Asia-Pacific region
- Ranked 11th in the world

Major Economic Indicators, Taiwan 2020	
GDP	US$669.3 billion
GDP growth rate	2.98%
GDP per Capita	US$28,383
Economic Growth	3.11%
Export Value	US$533.6 billion
Import Value	US$286.4 billion
Foreign Exchange Reserves	US$543.3 billion
Unemployment rate	3.85%
Labor Participation Rate	59.14%

Sources:

1. Invest in Taiwan website (http://investtaiwan.nat.gov.tw/)
2. National Statistics, ROC (Taiwan) website (http://www.stat.gov.tw/)

Low Taxation Investment Environment

Taiwan provides an investment environment of low taxation. The ratio of government tax revenue to GDP is around 12.2%, which is lower than in Japan, South Korea, and most of the developed countries in Europe and the Americas. In recent years, Taiwan has launched taxation reforms to lower the tax rate and simplify the taxation system. Beginning from 2020, the taxation has dropped significantly due to COVID-19 pandemic. Nevertheless, Taiwan has signed agreements for avoiding of double taxation with many countries. As of December 31, 2020, Taiwan had signed tax treaties with 33 countries, along with 12 treaties on air and sea transportation income tax exemption.

General Overview

Politics

Stable Politics, Emphasis on Democracy, Laws, and Freedom

Taiwan is a democratic country ruled by law. It has received high scores on political rights and civil liberties in the survey conducted Freedom House.

Active Participation in International Society

Taiwan has experienced political and economic changes and democratization over the past 20 years, which has triggered the development of non-governmental organizations (NGOs) as one of the major facets of the transition process.

General Overview

Financial

Advantages of Being the Asia-Pacific Capital Funding Center

Given Taiwan's Stable economic environment and the following factors, Taiwan has become the Asia-Pacific Capital Funding Center. Taiwan's exchange rate is stable and capital funding costs and interest rates are lower than in other Asian countries.

- Highly Internationalized Capital
- Active Stock Exchange Market
- Healthy Investment Environment

Introduction of Taiwan Stock Exchange Corporation (TWSE)	
Stock market capitalization to GDP ratio	227.1%
Turnover rate	123.3%
P/E ratio	22.3
Foreign holding Taiwan's listed companies	1/3
Average price of listing on TWSE	TWD 10 million
Listed securities on TWSE: • Stocks • Entitlement certificates of convertible bonds • Convertible bonds • Government bonds • Beneficiary certificates • Call warrants • Put warrants • ETFs • Taiwan Depository Receipts (TDRs)	

Chapter 2

Business Operation Environment in Taiwan

Legal

Tax

Accounting

Overview of Legal in Taiwan

Description of Taiwan as a Jurisdiction

Taiwan is a civil law country in which the Constitution of Taiwan is the supreme law of the land. The Legislative Yuan, the highest legislative organ of Taiwan, enacts laws through powers granted to it by the Constitution. The Executive Yuan is the executive branch of the government and may announce regulations and orders in accordance with the law. In general, the Civil Code governs all civil matters and the Code of Civil Procedure governs administration of civil proceedings in Taiwan.

Legal Updates

In recent years, the Taiwanese government has worked hard to expand its international presence by making numerous changes to the law to remove restrictions which may hinder such expansion. Major breakthroughs in Taiwan's deregulation have opened up the financial market, normalized cross-straight economic and trade relations, made the laws more comprehensive, and strengthened the business and investment climate in Taiwan.

Investors' Identity

Offshore investors can be divided into two groups: investors from Mainland China or investors from other countries other than Mainland China (**"Foreign Investors"**). Different rules and procedures apply to these two groups.

Government Approvals

An approval issued by Investment Commission shall be obtained before wiring any money to Taiwan. Additional approvals from the Ministry of Economic Affairs or Fair Trade Commission may be required on a case-by-case basis.

Restricted Industries

Generally speaking, Foreign Investors are allowed to invest in most industries in Taiwan, except for several sensitive areas listed in the "Negative List for Investment by Overseas Chinese and Foreign Nationals", e.g. financial services, land transportations.

Business Organizations & Corporate Structure

Forms of business organization available in Taiwan include representative office, branch office, limited partnership, or subsidiary company. If a foreign investor decides to set up a subsidiary in Taiwan, there are 4 forms of corporations it can choose to start its business: (1) Unlimited Company; (2) Limited Company; (3) Unlimited Company with Limited Liability Shareholders; or (4) Company Limited by Shares. The basic introduction of these 4 forms are set out below:

	Unlimited Company	Limited Company	Unlimited Company with Limited Liability Shareholders	Company Limited by Shares
Shareholder's Liability	Unlimited	Limited to the amount contributed	Unlimited liability for unlimited shareholders; and limited liability to the amount contributed for unlimited shareholders	Limited to the amount equal to the total value of shares subscribed
Number of Shareholders	At least 2 shareholders	At least 1 shareholder	At least 1 unlimited shareholder and 1 limited shareholder	At least 1 government or corporate or 2 shareholders
Minimum Capital	No. However, the capital amount of a company applying for registration of incorporation shall be audited by an independent certified public accountant			

Overview of Tax in Taiwan

The major Taiwan tax categories comprise of the following:

Corporate Income Tax

Companies incorporated in Taiwan is viewed as tax resident for tax purpose and are subject to corporate income tax (CIT) on worldwide income.

Personal Income Tax

Personal Income Tax (PIT) is levied on a territorial basis and is determined by residence status.

Business Tax

Business tax is an indirect tax that is imposed on the sale of goods and services supplied and/or utilized within Taiwan, as well as the importation of goods into Taiwan.

Customs Duty

Customs duty is imposed on goods imported into Taiwan and is payable by the consignee or the holder of the bill of lading for imported goods.

Stamp Duty

Stamp duty is levied on the documents and contracts executed within Taiwan, e.g. cash receipts, contractual agreement, or contracts for real property and movable properties.

Transaction Tax

- Securities Transaction Tax
- Futures Transaction Tax

Estate and Gift Tax

Estate tax is based on all property transferred at death. Gift tax is based on all property transferred annually. Both are applicable to individuals only.

Property Tax

Property taxes include:

- Consolidated Land and Housing Sales Tax (part of the income tax system)
- Land Value Tax
- Land Value Incremental Tax
- House Tax

Other Tax

- Commodity tax
- Tobacco and alcohol tax
- Specifically selected goods and services tax
- Deed tax
- Vehicle license tax

Overview of Accounting in Taiwan

Public companies

Financial reporting framework – Public companies

Basis Application by order

Securities and Exchange Act §14 →	Company Act §20 →	Regulations Governing the Preparation of Financial reports by Securities Issuers (by the FSC) →	IFRS endorsed by the FSC (T-IFRS)(*)

(*) Please see "Use of IFRS standards adopted by Taiwan" on the IASB website

The Financial Supervisory Commission (FSC) was established on July 1, 2004 as the competent authority responsible for development, supervision, regulation, and examination of securities and financial markets, public and financial service enterprises in Taiwan.

Types of Financial statements for Public companies

With subsidiaries	• **Parent-company- only FS:** Subsidiaries apply equity method(**) • **Consolidated FS**
Without subsidiaries	• **Individual FS**

Financial Report Publication and Deadlines for Public companies

Reporting requirements	Unlisted public company (including Emerging Stock Company)			Listed Company		
	Parent-company-only	Consolidated (or Individual)		Parent-company-only	Consolidated (or Individual)	
	Annual	Annual	Semi-annual	Annual	Annual	Quarterly
Audit / Review	Audit		Review	Audit		Review
Deadline	Four months		45 days	Three months		45 days

(**)The equity method requirements under the "Regulations Governing the Preparation of Financial reports by Securities Issuers" are not aligned with IAS 27.

Overview of Accounting in Taiwan

Non-Public companies

Financial reporting framework – Non-Public companies

Basis application by order

Company Act §20 → Business Entity Accounting Act and Regulation on Business Entity Accounting Handling → GAAP: Enterprise Accounting Standard (EAS); GAAP:IFRS endorsed by the FSC (T-IFRS)(*)

(*) Please see "Use of IFRS standards adopted by Taiwan" on the IASB website

Financial Reporting Requirements

Types	**Financial Statements:** Only parent-company-only financial reports are required.
Frequency	**Once a year:** The annual financial reports shall be submitted to the board for approval within two months after the end of each fiscal year. The period may be extended by two and a half months, if necessary.
Audit requirements	• Companies with paid-in capital of TWD 30 million or more on the financial reporting day must have their financial statements audited. • Companies with an annual operating revenue exceeding TWD 100 million, or have more than 100 employees, must have their financial statements audited.

The preparation of financial statements can elect to apply the policy for non-public companies

- Business Entity Accounting Act, Regulation on Business Entity Accounting Handling and Enterprise Accounting Standard ; or
- Business Entity Accounting Act, Regulation on Business Entity Accounting Handling and T-IFRS

The Contents of Enterprise Accounting Standard (EAS)

- The revised blueprint of EAS was based on the T-IFRS in 2013 by taking the local practice and the legal environment into consideration. The concept of the EAS was similar as that of the IFRS, only, in the much simpler form.
- The are a total of 23 standards of EAS, which were issued by the Accounting Research and Development Foundation.
- The disclosures requirements are much more simplified under EAS as compared to T-IFRS.
- The standards used in financial instruments, revenue and leases under EAS are aligned with IAS 39, IAS 18/IAS 11 and IAS 17.

Chapter 3

Investment in Taiwan

- Set up Stage
- Operation Stage
- Exit Stage

Forms of Business Organization

Forms of business organization available in Taiwan include representative office, branch office or a subsidiary company. A Limited partnership is a new business form recently being introduced in Taiwan.

Representative Office

A foreign corporation may designate a legal representative and establish a representative office in handling litigious and non-litigious matters or conducting local purchasing activities for its head office. However, it may not conduct commercial activities or act as a party in any domestic business transactions in Taiwan.

Branch Office

A branch office of a foreign company is a simpler form of business than a subsidiary company, which is merely an extension of the foreign head office. Therefore, a branch office does not need to comply with many of the requirements as pertaining to a Taiwan corporation such as requirements for shareholders/directors .The branch office is also taxed slightly different from a subsidiary company.

Subsidiary Company

A subsidiary company is a legal entity used to carry out a profit-seeking business. It may be established as an unlimited company, an unlimited company with limited liability shareholders, a limited company, or a company limited by shares. A limited company and a company limited by shares are the most common in Taiwan.

Limited partnership

The new **Limited Liability Partnership** Act allows the establishment of a limited partnership company in Taiwan, which can attract more diversified investments from overseas especially for project-type businesses. A Taiwan limited partnership must have at least one general partner and one limited partner.

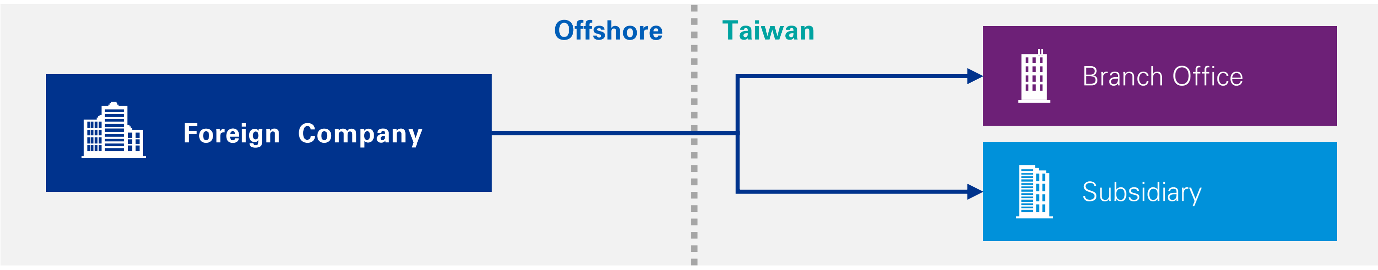
Legal - Set up Stage

A Foreign Investment Approval (FIA) is required to be obtained before a foreign investor applies for incorporation of a subsidiary/a limited partnership. The relevant information of the FIA is outlined as below:

Legal Process For Setting up An Entity in Taiwan	
Items	**Descriptions**
Government authority	Investment Commission
Law/regulation	Statute For Investment By Foreign Nationals
Main benefits under above Statute	a. May apply for exchange settlement b. May be exempt from the restrictions under the ROC Company Act, e.g. requiring issuance of stock certificates to the public (§156) and requiring setting aside a certain percentage of new shares (issued as a result of capital increase by cash) to be purchased by the employees (§267) if foreign investment accounts for 45% or more of the total capital of the enterprise in which he/she invests.
The industries prohibited or restricted investment	Governing by "Negative List for Investment by Overseas Chinese and Foreign Nationals" a. Prohibited industries: e.g. Land transportation (motor bus or taxi transportation), Radio Broadcasting and Postal Activities etc. b. Restricted industries: e.g. agriculture and animal husbandry, forestry, fishing , manufacture of tobacco products and electricity and gas supply etc.
Review the corporate investor's ownership up to the ultimate beneficial owner(s)	In case the beneficial owner is controlled directly or indirectly by individuals, juristic persons, organizations or any other institutions of the Mainland Area, the foreign investor shall apply for PRC investment approval instead, not Foreign Investment Approval.

Tax - Set up Stage

Following table is the comparison of tax treatments regarding different business entities. The main differences between subsidiary company and branch office are taxable income, surtax, profit remittance tax and tax relief. Please note that Representative Office can not conduct commercial activities or act as a party in any domestic business transactions in Taiwan.



Tax Implication Comparison On Different Forms Of Entity			
Types / Items	**Subsidiary Company**	**Branch Office**	**Representative Office**
Residency	Resident Company	Non-resident Company	N/A
Taxation Scope	Worldwide Income	Taiwan-sourced Income (*)	N/A
CIT Rate	20%	20%	N/A
Surtax	5%	N/A	N/A
Alternative Minimum Tax	Applicable	Applicable	N/A
Profit Remittance Tax	Withholding tax of 21% on dividends	None	N/A
Business tax Registration	Applicable	Applicable(**)	N/A
Filing of Annual Tax Return	Required	Required	N/A
Tax Incentives under Statute for Industrial Innovation (SII)	Applicable	N/A	N/A

(*) Force of Attraction Rule (FOA Rule): Under Taiwan ITA, if a foreign company with a branch office in Taiwan derives income that are sourced in Taiwan, such Taiwan branch is required to report the foreign company's Taiwan sourced income (TSI) in the branch's income tax return and subject to CIT at the rate of 20%.
(**) For foreign company with a fixed place of business in Taiwan, such as a branch office, its Taiwan Branch should report sales made by the foreign head office in Taiwan in branch's business tax return.

Legal - Operation Stage

Board Meeting

- Board Composition

  A company may choose to establish a board of directors, comprising at least three directors, or just have one or two directors without forming a board. Where there is a board of directors, the board of directors shall be the highest authority of the company.

- Convention of Board Meeting

  The chairman of the board shall convene board meetings upon notices sent to all directors three days prior to the scheduled meeting dates. Public companies have a different time limit on giving a notice, normally seven days ahead. Majority of directors may ask the chairman of the board to call a board meeting by a written proposal. If the chairman of the board fails to call a board meeting within 15 days, majority of directors may convene a board meeting by themselves.

- Meeting Attendance

  In general, each director shall attend board meetings in person or be represented by another director with a written proxy. Board meetings can also be held through video conferencing. However, if permitted by the articles of incorporation of the company and agreed by all directors, directors may pass a written resolution without a meeting. In addition, if directors have a personal interest in the matter under discussion at a board meeting, such directors shall disclose the personal interest and abstain from voting.

Shareholders Meeting

- Convention of Regular Meeting

  A company shall hold a regular meeting of shareholders at least once a year within 6 months after the end of the fiscal year, unless otherwise approved by the competent authority.

- Convention of Special Meeting

  Other than regular meetings of shareholders, a company may hold one or more special meetings of shareholders when needed. Special meetings of shareholders may also be called by shareholders if certain requirements are met. For example, shareholders continuously holding 50% or more of the total number of outstanding shares or a period of three months may directly convene a special meeting of shareholders.

  In addition, shareholders holding continuously 3% or more of the total number of outstanding shares for a period of one year may request the board of directors to convene a special meeting of shareholders. If the board of directors refuses to do so within 15 days after receiving such request, the shareholders may directly convene a special meeting of shareholders upon approval of the competent authority.

- Voting in Shareholders Meeting

  A non-public company is now allowed to hold a meeting of shareholders by means of video calls if permitted by the articles of incorporation of the company. Shareholders may vote: (i) by attending the meeting in person; (ii) by appointing a proxy on their behalf; (iii) by mail with written decision; (iv) by way of electronic transmission.

Legal - Operation Stage

Anti-money Laundering

A company is required to make an annual filing on the number of its shares held by its directors, supervisors and major shareholders who hold more than 10% of outstanding shares and report any change thereof within 15 days to a designated platform. The central competent authority may periodically verify the authenticity of the information reported.

In addition, starting on July 6, 2018, companies cannot issue bearer shares in order to mitigate the risk of money laundering. Companies that issued bearer shares prior to July 6, 2018 shall change the bearer shares into registered shares when the holders of the bearer shares exercise their shareholders' rights.

Shares Issuance

- Procedural Matters

  A company may choose to issue either par value or no par value shares. Issuance of new shares of a company shall be determined by a resolution of the board of directors passed by a majority vote at a meeting attended by over two-thirds of directors. If the sum of amount of shares to be issued will exceed the amount of authorized share specified in the articles of incorporation, a company shall amend the articles of incorporation with consent of a majority of shareholders who represent two-thirds or more of total number of outstanding shares.

- Subscription Order for Newly Issued Shares

  Firstly, 10%-15% of newly issued shares are reserved to qualified employees. Secondly, after reserving for employees, the remaining newly issued shares shall be subscribed by original shareholders in proportion respectively to their original shareholding. Lastly, a company may allow specific persons to subscribe newly issued shares if original shareholders give up their preemptive rights.

- Preferred Shares

  In addition to common shares, a company may issue preferred shares if certain rights of preferred shares are stipulated in its articles of incorporation, such as order, fixed amount or fixed ratio of allocation of dividends and bonus on preferred shares; order, fixed amount or fixed ratio of allocation of surplus assets of the company; order of or restriction on or no voting right on the exercise of voting power by shareholders of preferred shares, etc.

  A non-public company is further allowed to issue preferred shares with multiple voting rights or veto power over certain specific matters, any prohibition or restriction on preferred shareholders to be elected as directors and/or supervisors, or rights to be elected as directors, or restrictions on transfer of preferred shares.

Legal - Operation Stage

Bonds Issuance

A non-public company is permitted to issue common corporate bonds, convertible corporate bonds or corporate bonds with warrants in Taiwan. Common corporate bonds of a non-public company may be issued by a resolution adopted by a majority of directors at a meeting attended by two-thirds or more of total number of directors and the board of directors reporting such bond issuance to shareholders. For the convertible corporate bonds and corporate bonds with warrants, in addition to a directors' resolution, the issuance shall be approved by a resolution in a shareholders meeting.

Exchange Controls

Unless approved or authorized by competent authorities, the Central Bank of Taiwan imposes a limit of US$50 million per year for a business entity and US$5 million per year for an individual on any foreign-exchange transfer, inward or outward, other than trading or service revenue.

If a business entity's settlement of foreign exchange purchased or sold has exceeded US$50 million, it may not be processed until receiving approval from the Central Bank of Taiwan, which requires submitting a Declaration Statement along with evidencing documents through banking enterprises. Any foreign exchange transactions under TWD 500,000 would not be counted toward the limitation above nor be necessary to declare.

Labor Contracts

Taiwan law does not require employment contracts to be in writing; however, it is advisable to enter into written employment contracts to avoid future dispute. Items included in an employment contract should not contravene minimum standards stipulated under the Labor Standards Act ("LSA"). Enforcement Rules of the Labor Standards Act provides certain items to be stated in an employment contract:

- Job description,
- Workplace,
- Work hours,
- Salary,
- Termination of employment contracts, and
- Other matters relating to rights and obligations of the labor and management.

Non-compete clause

If an employer wishes to include a restrictive clause on competition in the employment contract, such clause must be clear and should specify in detail the non-competition period, area, and scope of the non-competition obligation, and the amount of compensation to avoid such non-competition clause being null or void.

Legal - Operation Stage

Work Hours and Overtime

- Normal work hours scheme

  An employee's normal work hours may not exceed 8 hours per day or 40 hours per week. An employee who works under normal work hours must be given two days off every seven calendar days.
- Flexible work hours scheme

  LSA provides more flexibility in work hours toward certain industries, such as two-week, four-week and eight-week flexible work hours. An employee working under flexible work hours will still have days off with more flexible arrangement.
- Overtime

  LSA provides stringent rules on overtime. In general, overtime, combined with the normal work hours, shall not exceed 12 hours a day and the total hours of overtime shall not exceed 46 hours a month.

Labor Insurance

There are two main insurance schemes for employees in Taiwan: 1. labor and employment insurance and 2. national health insurance.

Labor and Employment Insurance

- Labor Insurance

  Companies employing five or more employees must apply for labor insurance, and the coverage cannot be withdrawn even if the number of employees falls below five in the future.

  Labor insurance can be classified into ordinary insurance and occupational accident insurance. Ordinary insurance provides maternity, injury, sickness, disability, old-age and survivors' benefits. Occupational accident insurance covers accidents occurred under direction of an employer during the provision of service and provides injury and sickness benefits, medical-care benefits, disability benefits and survivors' benefits.

  Ordinary insurance premium rate is 10.5% of an employee's monthly insurance salary and the premium is shared among the employer, employee and government as follows: 70% of the premiums are paid by the employer, 20% by the employee, and 10% by the government. The average rate for occupational accident insurance premium is 0.21% and occupational accident insurance premium is paid entirely by employers.
- Employment Insurance

  Companies are required to apply for employment insurance even if there is only one employee. Employment insurance aims to provide basic living support to employees during unemployment. Employment insurance premium rate is 1% of an employee's monthly insurance salary. The premium is shared among the employer, employee and government as follows: 70% of the premiums are paid by the employer, 20% by the employee, and 10% by the government.

National Health Insurance

Companies are required to apply for national health insurance even if there is only one employee. National health insurance premium rate is 5.17% of an employee's monthly insurance salary. The premium is shared among the employer, employee and government as follows: 60% of the premiums are paid by the employer, 30% by the employee, and 10% by the government.

Legal - Operation Stage

Pension

Taiwan's pension system underwent a major reform in 2005 and a new labor pension system ("LPA System") was introduced, as opposed to old pension system establish by the LSA ("LSA System"). Currently, most employees in Taiwan are enrolled under LPA System, which operates similar to the so-called "defined contribution plan."

Under the LPA System, employers are required to deposit at least 6% of an employee's monthly salary into an individual labor pension account and employees may voluntarily contribute up to 6% of their monthly salaries to their accounts. The accounts are portable and will be retained even if the employees change jobs or if business entities shut down or cease operations.

Foreign Workers

- Types of Work

  Taiwan only opens certain types of work for foreign workers, including specialized or technical work, officers of a business invested in or set up by overseas Chinese or foreigners, teacher, family nursing job and household service, institutional care work, manufacturing work, construction work, marine fishing work and slaughtering work.

- Written Employment Contract

  An employer should enter into a written employment contract with a foreign worker because a written employment contract is required for work permit application. The employment contract should include: code of conduct; discipline at work; work hour; leaves and vacations; remuneration; location of work and job duties.

- Work Permit

  Before a foreign worker arriving Taiwan, an employer should apply for a work permit with the Ministry of Labor. Upon approval of work permit, a foreign worker may apply for work visa. With a few exceptions, a foreign worker must hold a work permit to legally work in Taiwan. Once a foreign worker arrives Taiwan, a foreign worker should apply for alien residence certificate with the National Immigration Agency.

- Labor Insurance and Pension

  Regulations on labor and employment insurance and national health insurance are also applicable to foreign workers. Employers should also enroll foreign workers in the pension system. Rules on pension system do not apply differently to foreign workers.

Legal - Operation Stage

Termination of Employment

Under Taiwan law, employers are not allowed to arbitrarily terminate employment contracts. In accordance with LSA, employment contracts can be terminated by employers with two methods.

A. Termination With Notice

- Justifiable Causes

  Employers may terminate employment contracts with advance notices and severance pay, if employers have any of the following justifiable causes:

  1. an employers' businesses are suspended, or transferred;
  2. an employers' businesses suffers an operating losses, or business contractions;
  3. force majeure event necessitates the suspension of business for more than one month;
  4. change in the nature of business necessitates the reduction of workforce and there is no other suitable positions for an employee; and
  5. an employee is clearly incapable of carrying out his or her duties.

- Advance Notice

  If an employer aims to terminate an employment contract based on the above justifiable ground, an advance notice should be given to an employee. The minimum period of an advance notice would differ depending on how long the employee has worked for the employer. Where an employee has worked continuously for more than three months but less than one year, a notice shall be given ten days in advance; more than one year but less than three years, a notice shall be given twenty days in advance; more than three years, a notice shall be given thirty days in advance.

- Severance Compensation

  If termination based on above justifiable cause is executed, employers are also required to pay severance compensation. For employees enrolled under the LSA System, severance compensation is one month's average salary for each year of service and there is no cap on the total amount of severance compensation. For employees enrolled under the LPA System, severance compensation is calculated as half a month average wages for each full year of employment with a cap being no more than six months average wages.

B. Termination Without Notice

Employers may terminate employment contracts without advance notices and without severance compensation if any of the following occurs:

1. Where an employee misrepresents any fact at the time of signing of an employment contract which causes the employer to sustain damage;
2. Where an employee commits a violent act against or grossly insults the employer, family member or agent of the employer, or a fellow employee;
3. Where an employee has been sentenced to imprisonment;
4. Where an employee is in serious breach of the employment contract or in serious violation of work rules;
5. Where an employee deliberately damages company property or deliberately discloses any confidential information; and
6. Where an employee is, without good cause, absent from work for three consecutive days, or for a total six days in a month.

Tax - Operation Stage

Corporate Income Tax

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 incorporated in accordance with the Company Law in Taiwan or situated its seat in Taiwan is considered a resident for Taiwan tax purposes. A Taiwan resident company is taxed on its worldwide income.

CIT Rate

The CIT rate is 20% for fiscal years starting on or after January 1, 2018, and the threshold for subjecting a company to CIT is TWD 120,000. A resident company's earnings generated in a year and remain undistributed by the end of the following year are subject to 5% 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 (AMT).

Computation of CIT

Taxable income for CIT is calculated by revenue minus costs, expenses, losses and taxes/donations. Income from all sources including business income, rent, interests, royalties and capital gain realized from property sales, etc. is subject to CIT except for certain exempt income items specified under Taiwan Income Tax Act (ITA).

Taxable Income = (Total Revenue − Deductible Expenses) + (Other Income − Other Expenses)

For CIT calculation purpose, the threshold for subjecting a company to CIT is TWD 120,000. The following table summarizes the taxable income, tax rate, and relevant tax computation:

Taxable Income Calculation

Taxable Income	Tax Rate	Tax Computation Formula
Not over TWD 120,000	N/A	N/A
Over TWD 120,000	20%	(a) If under TWD 200,000, tax payable = (Taxable income − 120,000) × ½ (b) If over TWD 200,000 tax payable = Taxable income × 20%

(*) Surtax rate changes to 5% for earnings from FY18 tax year and onwards

Tax - Operation Stage

Corporate Income Tax

Interest deductibility restrictions

Interests on loans that are used for business purposes are deductible in the year incurred. However, for a loan from a non-financial institution, the interest rate shall not exceed the rate as announced by the Ministry of Finance (MOF). For fiscal year 2021 the current interest rate limitation is 15.6% per annum. As for interest on inter-company loans, the deductible amount is subject to Thin Capitalization Rule and transfer pricing regulations. (Please refer to the section of "Anti-tax Avoidance Rules" for more details.)

Alternative Minimum Tax

Taiwan also imposes an AMT on resident or non-resident companies under the Income Basic Tax Act (IBTA). if the annual basic income (i.e. the sum of regular taxable income plus add-back items) is more than TWD 500,000, companies have to pay the higher of the regular income tax liability or the AMT payable. The Add-back items are including the followings:

- Tax-exempt income under tax incentive schemes (such as income derived from participating in transportation or public constructions, M&A exempted income, and etc.)
- Tax-exempt capital gains from qualified securities and future transaction
- Tax-exempt income of offshore banking unit, offshore securities unit, and offshore insurance unit.

AMT Calculation

Step 1:Calculate Basic Income Amount (BIA)
[BIA=Regular taxable income + add-back items]

Step 2:Calculate Basic Tax Amount (BTA)
[BTA=(BIA - TWD 500,000)*12% AMT rate]

Step 3:If BTA ≦ regular income tax amount (ITA) or not?

YES: No AMT is payable

NO: The difference between BTA and ITA is payable

Tax Loss

Loss Carryforward	
Items	**Descriptions**
Loss Carryforward	The tax losses could be carried forward for 10 consecutive years.
Requirements	• Maintains sound accounting books and supporting documents • Files its blue tax return or have its tax return certified by a Taiwan-licensed CPA • Files its annual tax return within the statutory time limit
Note	The tax losses cannot be carried back.

Tax - Operation Stage

Corporate Income Tax

Surtax

Following the ITA, except for the 10 % of profits set aside as a legal reserve, if Taiwan companies do not distribute its current after-tax profit to its shareholders in the following year, a surtax of 5% would be imposed on such undistributed earnings together with its annual income tax return. However, branch office in Taiwan would be not subject to the surtax.

Given such, in order to encourage investment by companies into its business operation, Ministry of Economic Affairs (MOEA), has introduced special tax incentive for surtax calculation under Statute for Industrial Innovation (SII) where the qualified actual investment made by companies can become one of the deduction items for surtax calculation.

To utilize special deduction, the taxpayer needs to be eligible to the following requirements:

Special Tax incentive for Surtax Calculation under SII (*)	
Requirements	**Descriptions**
Effective period	Applicable to FY18 tax year’s surtax return and onwards
Investments period	Investments should be completed within 3 years after the year the earnings are generated
Types of qualified investments	Investments in construction or acquisition of buildings, hardware and software or technologies that are used by companies for their core or ancillary business operation and production, excluding purchase of land and acquisition of devices and equipment that would not be capitalized.
Minimum amount	The actual accumulated amount invested should exceed TWD 1 million

(*) The applicable period is from the effective date of July 24, 2019 to December 31, 2029.

Tax - Operation Stage

Corporate Income Tax

<table>
<tr><th colspan="4">CIT Filing Requirements</th></tr>
<tr><th>Items</th><th>Types</th><th colspan="2">Descriptions</th></tr>
<tr><td rowspan="5">Filing Due Date</td><td rowspan="2">Annual income tax returns</td><td>Calendar year</td><td>May 1 to 31 of the following year(*)</td></tr>
<tr><td>Non-calendar year</td><td>Due in the 5th month after the income tax year-end</td></tr>
<tr><td rowspan="2">Provisional income tax returns</td><td>Calendar year</td><td>Sep. 1 to 30 of the following year</td></tr>
<tr><td>Non-calendar year</td><td>Due in the 9th month after the income tax year-end</td></tr>
<tr><td>Surtax</td><td colspan="2">Resident company should report its undistributed preceding year's surplus earnings together with its annual income tax return in the current year.</td></tr>
<tr><td rowspan="2">Statute of Limitation</td><td>If the return is filed on time</td><td colspan="2">5 years from the tax return filing date</td></tr>
<tr><td>If taxpayer fails to file on time or evades tax by fraud</td><td colspan="2">7 years from the tax return filing date</td></tr>
<tr><td>Notes</td><td colspan="3">• Business entities can choose to change its fiscal year from calendar year to non-calendar year upon the approval of tax office.
• Need to pay interest on any unpaid taxes from the date following the original due date to the date of payment.
• Penalties are imposed for late filing and failure to file a return.</td></tr>
</table>

(*) The tax return filing due date for FY20 tax year is extended to June 30 due to COVID-19 pandemic.

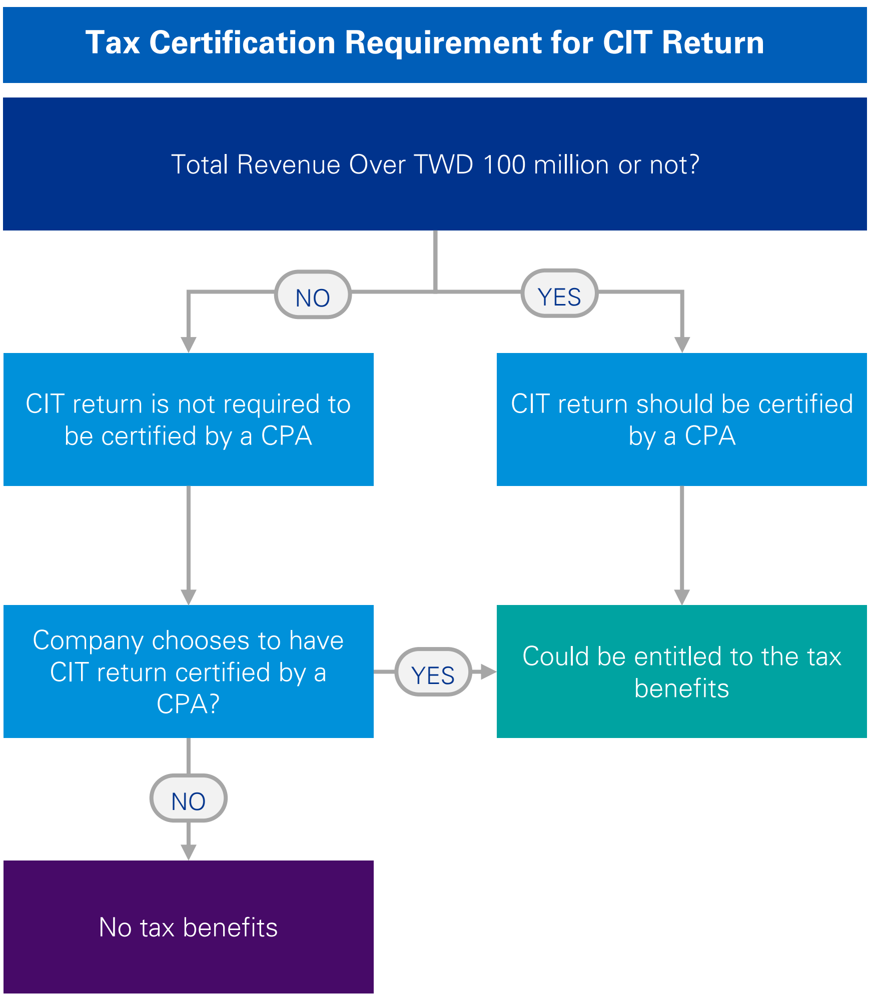
Tax - Operation Stage

Corporate Income Tax

Tax Certification Requirement

Company is required to have its CIT return certified by a CPA if the total amount of the company's annual net sales revenue and non-operating revenue is over TWD 100 million. If a company that does not reach the foregoing threshold but has its CIT return certified by a CPA, under the ITA, the company could be entitled to the following benefits

- Should the company incur losses from its operation, the tax losses can be carried-forward for 10 consecutive years if the income tax return is filed on time.
- The Company will be allowed to recognize more entertainment expense.
- The Company can calculate its provisional tax payable based on the business revenue of the first 6 months of the current tax year, instead of paying provisional tax based on 50% of previous year's tax payable.



Tax - Operation Stage

Withholding Tax

General Overview

Domestic companies are required to make withholding on payments that are within the scope of withholding tax. The applicable tax rate would differ depending on the status of the recipient (domestic or foreign, company or individuals) as well as the nature of the payments, including salary, interest (paid to non-financial institutions), rent, commission, royalty and professional fees, etc.

Withholding rate

The WHT rates apply to income paid to resident or non-resident are summarized in the following table:

WHT compliance deadline:

For payments to residents:

- The withholder should make withholding when the payment is made, and pay the WHT within 10 days in the subsequent month for domestic payment.
- The aggregated withholding statement of the current year for the resident should be filed with the tax authority before the end of January in the subsequent year.
- Deadline for issuing withholding tax statements to the taxpayers for tax withheld in the preceding year is before the end of February in the subsequent year.

For cross-border payment made to offshore non-resident companies and individuals:

- The withholder should pay the WHT and file withholding statement with the tax authority within 10 days after the date the tax was withheld.

WHT Rate On Different Types Of Payments		
Income Category	**WHT Rate for Resident**	**WHT Rate for Non-Resident**
Salary and wage	5% or based on the amount prescribed in the withholding tax table	18%
Dividends	N/A	21%
Commissions	10%	20%
Interest	10%	15%, 20%(*)
Rentals	10%	20%
Royalties	10%	20%
Technical service fees	10%	20%
Professional service fees	10%	20%
Prizes/Awards	10%, 20%(**)	20%
Other income	N/A	20%

(*) For interest income derived from (1) short-term commercial paper, (2) distributed from beneficiary securities or asset-backed securities issued in accordance with the Financial Asset Securitization Act and the Real Estate Securitization Act, (3) government bonds and financial bonds, or (4) conditional transaction, 15% WHT rate would apply. Other interest income will be subject to 20% WHT.

(**) Cash awards more than TWD 5,000 from lottery tickets issued by the government are subject to a 20% withholding tax.

Tax - Operation Stage

Tax Incentives

Research & Development (R&D) tax credit incentives

R&D tax credit incentive regime allows the qualifying R&D expenditure incurred by a company in a specific tax year to be claimed following CIT incentives under the Statute for Industrial Innovation (SII).

Qualified Investment under SII

To encourage investment by companies into its business operation, the MOF has introduced a special tax incentive for surtax calculation under SII, where the investment complied with the requirements below was made by companies could become one of the deduction items for surtax calculation.

Free Trade Zones (FTZ)

In order to develop a global operation and management model and to ensure a free and international trade system, the government has promulgated the Act for the Establishment and Management of FTZ. Its related benefits and conditions are as the following table.

Brief Description on Tax Incentives

Types	Items	Descriptions
R&D Tax Credit Incentives under SII	CIT Incentives	• 15% of qualified R&D expenditures by the company as a tax credit in the current year, or • 10% of qualified R&D expenditures against its CIT payable over 3 years
	Amount Limit	30% of the income tax payable for the current year
Qualified Investment under SII	Surtax Incentives	Qualified investment could become one of the deduction items for surtax calculation
	Conditions	• The investment should be completed in 3 years after the year of earnings are generated ; • Invested in construction or acquisition of buildings, hardware and software or technologies that are used by companies for their core or ancillary business operation and production. • The purchase of land and the acquisition of devices and equipment that would not be capitalized are excluded.
Free Trade Zones (FTZ)	Benefits	FTZ is treated as foreign soil inside a country and could have tax benefits on selling goods offshore.
	Conditions	Enterprises which have been approved to engage in trading, warehousing, logistics, collecting, distributing containers, transiting, transshipment, forwarding, customs clearance, assembling, sorting, packaging, repairing, fabricating, processing, manufacturing, examining, testing, displaying, or technological service within an FTZ.

Tax - Operation Stage

Anti-tax Avoidance Rules

General Overview

Taiwan has adopted several anti-tax avoidance rules as below in recent years as recommended by the OECD's base erosion and profit shifting (BEPS) actions to ensure a more transparent tax environment.

Thin Capitalization Rule

To prevent excessive interest expense

Controlled Foreign Company (CFC)

To solve defer dividend treatment

Place of Effective Management (PEM)

To solve profit shifting via transactions

Common Reporting Standard (CRS)

Exchange financial information automatically with different tax jurisdictions

Thin Capitalization Rule

According to Article 43-2 of the ITA, companies, except financial sector enterprises such as banks, financial holding companies, insurance companies, securities forms, etc., are subject to Thin Capitalization Rule. 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. Unless safe harbor rules apply, applicable companies are required to disclose information about related-party debt when filing their CIT returns.

Controlled Foreign Company (CFC)

Under Article 43-3 of the ITA, for any Taiwan resident enterprise and its related parties directly or indirectly holding 50% or more of shares or capital of a foreign-affiliated enterprise registered in a low-tax burden country or jurisdiction (with the rate of less than 14%), or those with a significant influence on such a foreign-affiliated enterprise, the surplus earnings of the foreign-affiliated enterprise shall be deemed as the Taiwan resident enterprise's investment income calculated according to the ratio and holding period of the shares or capital. Such investment income will be included in the taxable income of the current year except by one of the following provisions:

- The foreign-affiliated enterprise has substantial operating activities in its country or jurisdiction.
- The current year surplus earnings of the foreign-affiliated enterprise are below TWD 700 million.
- However, the new CFC rules have yet to take effect. The actual effective date is to be determined by the Executive Yuan.

Tax - Operation Stage

Anti-tax Avoidance Rules

Place of Effective Management (PEM)

Per Article 43-4 of the ITA, the tax authority had introduced a new rule regarding the tax residence of companies. This rule stipulates that companies registered outside of Taiwan, but with effective management located in Taiwan will be deemed to be headquartered in Taiwan, and consequently constitute a resident. However, the actual effective date is yet to be determined by the Executive Yuan

Common Reporting Standard (CRS)

The Tax Collection Act was amended in 2017 to provide a legal basis for adopting the OECD's CRS regarding the automatic exchange of information with other tax jurisdictions. Taiwan has implemented CRS from 2019 and signed with Japan and Australia on CRS with the first exchange of information in September 2020. Furthermore, Taiwan has also signed with the United Kingdom on CRS and will be effective starting from September 2021.

In addition, in 2016, Taiwan has also signed an agreement with the U.S. to allow financial institutions to register with and disclose to the U.S. tax authority under the US Foreign Account Tax Compliance Act.

Tax - Operation Stage

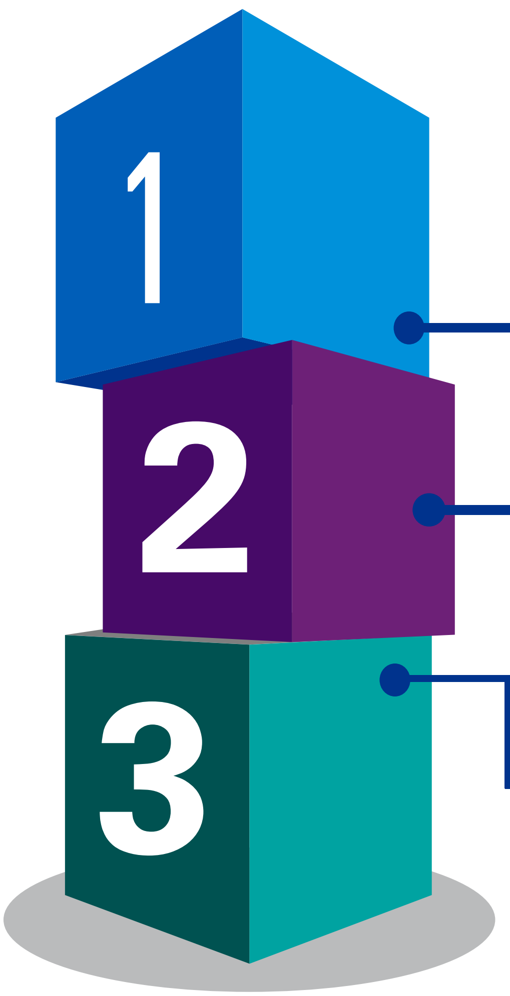
Transfer Pricing

Compliance Requirements

Taiwan's transfer pricing regime adheres to the arm's length principle for related-party transaction. The governing rules are set out in "Regulations Governing Assessment of Profit-Seeking Enterprise Income Tax on Non-Arm's Length Transfer Pricing" (TP Assessment Rules), which are basically based on OECD transfer pricing and the U.S. Internal Revenue guidelines. The definition of related parties pursuant to TP Assessment Rules includes direct and indirect control, as well as control over a board of directors.

And the types of transactions governed by TP Assessment Rules are transferred or use of tangible or intangible property, rendering of services, use of funds, and other types of transaction assessed by the MOF.

In addition, Taiwan has adopted OECD's three-tiered TP documentation structure as suggested in BEPS Action 13. This consists of a Local File or TP report, a Country-by-Country report (CbCR) and a Master File. Disclosure of related-party transaction in the CIT returns and preparation of TP documentation is required if certain reporting criteria below are met.



Local File

Disclose company's related party transactions with arm's length principle analysis

Country-by-Country Report

Disclose company's taxable income, relevant tax amount and operating status in different tax jurisdictions

Master File

Disclose high level information about the global business operations and TP policy of an MNE group.

TP disclosure requirements

If the total amount of the company's annual net operating revenue and non-operating revenue is over TWD 30 million, it is required to disclose all controlled transaction in the CIT returns based on the format specified by the tax authority.

Tax - Operation Stage

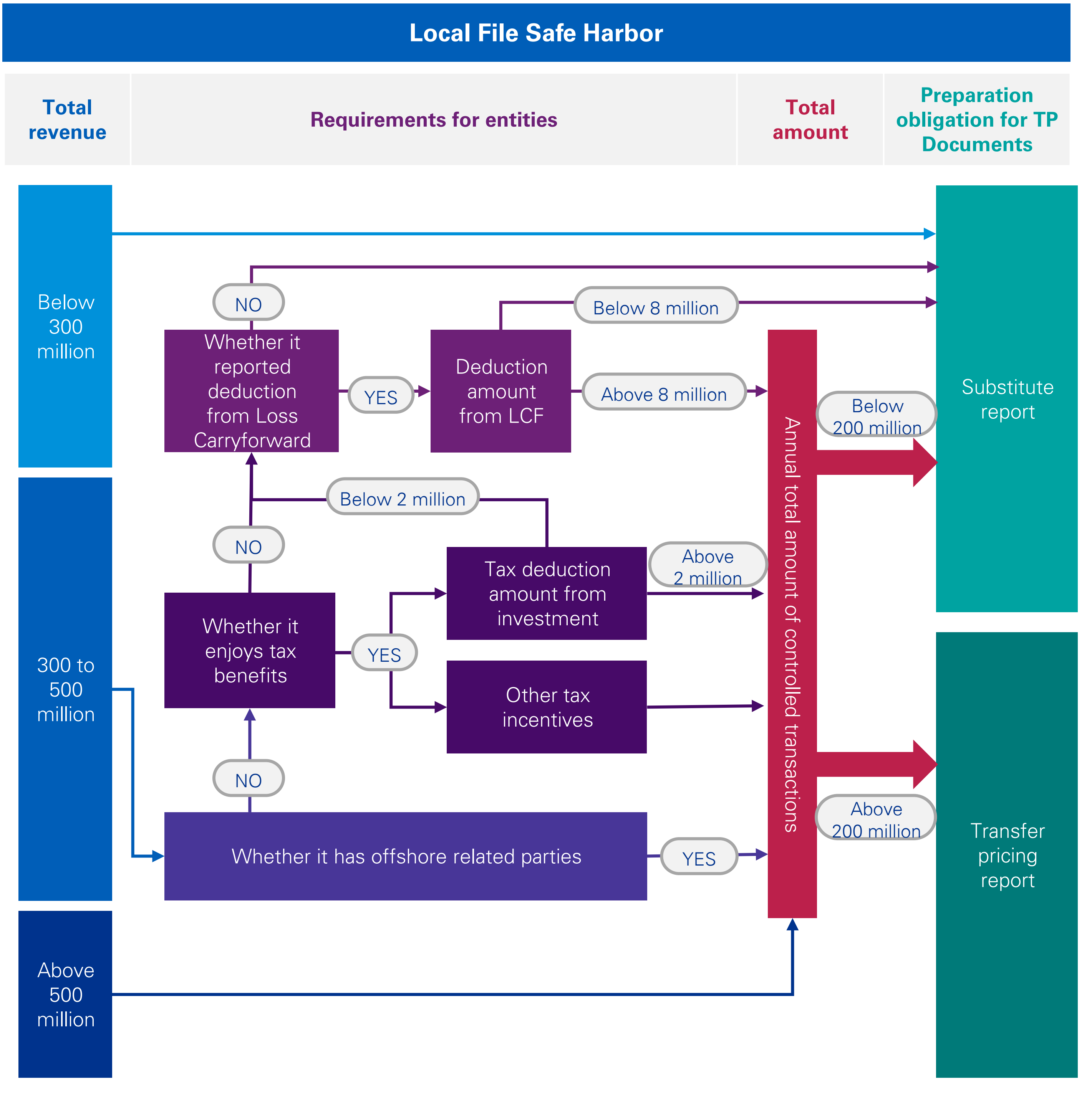
Transfer Pricing

Local File

A Taiwan entity meeting any one of the following conditions will be required to file the Local File:

Safe harbor thresholds (in TWD) for the Local File

Local File is not required to be filed along with CIT return. However, upon tax authority's request, the company will be required to provide Local file within one month. For entities that do not meet the requirement to prepare Local File, it should prepare other transfer pricing substitute reports to justify that its related party transactions are at arm's length.



Tax - Operation Stage

Transfer Pricing

CbCR and Master File

From 2017 onwards, companies are required to submit CbCR and Master File unless the companies fall within the safe harbor thresholds.

A Taiwanese entity meet any one of the following conditions will be exempted from filing the Master File:

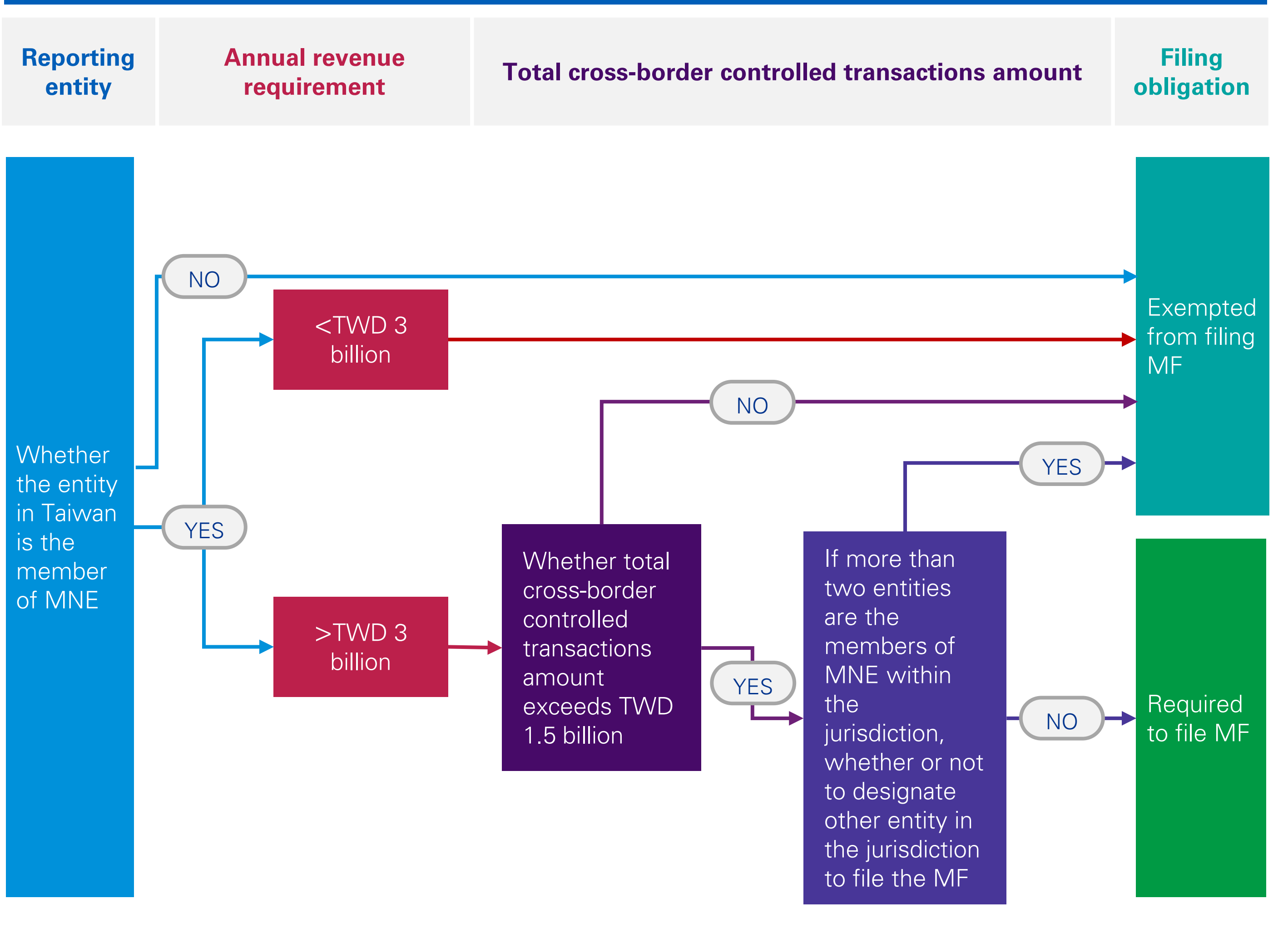
- The Taiwanese entity’s total annual revenue (include operating and non-operating) has not exceeded TWD 3 billion; or
- The Taiwanese entity’s total cross-border controlled transaction amount has not exceeded TWD 1.5 billion.

Moreover, according to relevant TP rules, if the Taiwanese entity fall within the safe harbor threshold for Master File, it does not have to file MF and CbCR with Taiwan tax authority, but only need to disclose the fact that it meets the safe harbor threshold in the format specified by the tax authority in the CIT return.

Advance Pricing Agreement

In addition, Taiwan's Advance Pricing Agreement (APA) regime allows enterprises meeting certain criteria to negotiate with the tax authority for an APA. APA may be applied for where the aggregate amount of controlled transaction to be covered by the APA is at least TWD 500 million, or the annual amount of such transaction is at least TWD 200 million, among other criteria. An APA application should be made in the prescribed form by the end of the first accounting period of the controlled transaction which are to be covered in the APA. Generally, an APA is valid for 3 to 5 years. When an enterprise's business nature has not materially changed, a one-time, maximum 5-year extension can be requested. However, there is no rollback provision in the APA.

Master File Safe Harbor



Tax - Operation Stage

Business Tax

General Overview

Business tax is an indirect tax that is imposed on the sale of goods and services supplied and/or utilized within Taiwan, as well as the importation of goods into Taiwan according to Taiwan Business Tax Act (BTA). There are 2 systems under Business Tax: (1) Gross Business Receipts Tax (GBRT) and (2) Value Added Tax (VAT). Following table is the summary of Taiwan.

Filing Requirement

- Business tax returns should be filed on a bi-monthly basis before the 15th day of every odd month.
- A company that qualifies for 0% rate VAT may apply to file its VAT returns monthly.

GBRT Introduction

Types	Taxpayers	Taxable items	Tax rates
GBRT	Financial institutions	Core business sales revenue from banking and insurance	5%
		Reinsurance premiums	1%
		For other core business sales revenue of other financial institutions	2%
		Non-core business sales revenue(*)	5%
	Special vendors of food and beverages		15% or 25%
	Small businesses		0.1% or 1%

(*) Financial institution can apply to adopt VAT system for non-core business sales revenue

VAT Introduction

Types	Items	Descriptions	
VAT	Taxpayers	For companies that are not financial institutions or other special business entities specified in Business Tax Act	
	Taxable items	• Sale of goods • Services supplied and or/utilized in Taiwan and • Goods imported to Taiwan.	
	Tax Rates	Standard rate	5%
		Export of goods and services related to exportation or services provided in Taiwan and utilized offshore (Article 7 of BTA)	0%
		Items prescribed in Article 8, 8-1, and 9 of BTA	Exempted
	Calculations	• If (Output VAT- Input VAT) > 0, VAT payable • If (Output VAT- Input VAT) < 0, overpaid VAT	
	GUIs	GUIs should be issued by the seller of goods or services to the purchasers	

Tax - Operation Stage

Customs Duty

General Overview

The import of goods are subject to customs duty. Taiwan customs mechanism, including valuation and classification, follows rules of the World Trade Organization (WTO) and the World Customs Organization's Harmonized Commodity Description and Coding System (HS).

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

Rates

The duty rates vary by product type. Taiwan's tariff schedule has 3 categories of rates as follows:

- Special rate applied to goods imported from the WTO member countries or from countries and territories that offer reciprocal treatment to Taiwan.
- Special rate applied to goods imported from countries and territories that are from specified Least Developed Countries or developing countries or areas, or from those countries or areas which have signed Free Trade Agreement (FTA) or Economic Cooperation Agreement (ECA) with Taiwan.
- Ordinary rates applied to all other goods which are not suitable for the above two categories.

Below is a list of countries in which Taiwan has an FTA or ECA (or similar agreement thereof) with and is currently in force:

FTA & ECA Countries					
FTA	Panama	The Republic of Guatemala	The Republic of Nicaragua	The Republic of El Salvador	The Republic of Honduras
ECA	The Republic of Paraguay	The Kingdom of Eswatini	New Zealand	Singapore	China

Tax - Operation Stage

Stamp Duty

General Overview

Stamp duty is levied on the prescribed documents and contracts executed within Taiwan. Taxable items and tax rate are described as the following tables.

Filing Requirement

Documents subject to the levy of stamp tax shall be affixed with a sufficient amount of tax stamps at the time of delivery or use.

Penalties

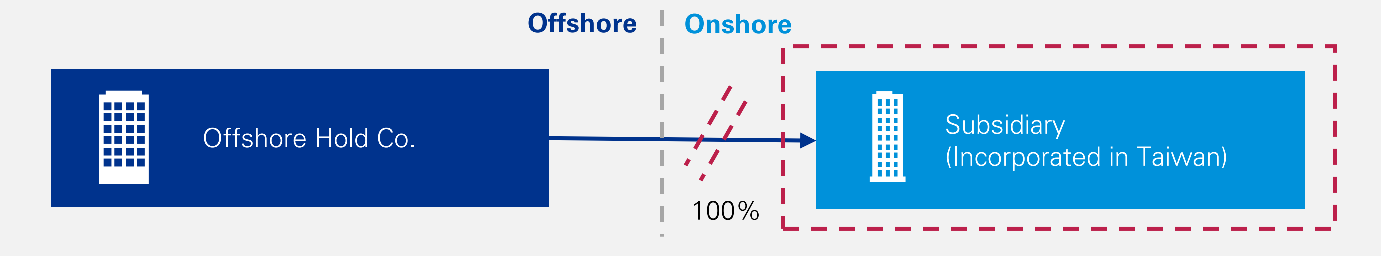
For failing to affix tax stamps required or affixing insufficient tax stamps, it would be subject to a fine at 5 to 15 times the tax owed in addition to making up the tax stamps required.

Stamp Duty Tax Rates

Types of Tax	Taxable items	Tax Rates
Stamp Duty	Cash receipts (excluding checks)	0.4% of the receipt amount
	Contractual agreement on a specific job or task	0.1% of the contract value
	Contracts for lien, sale, exchange, donation, or division of real property	0.1% on the government assessed value of the land and building
	Sale of movable properties	TWD 12 per contract

Legal - Exit Stage

The following procedures must be complied with when an offshore holding company dissolves its subsidiary in Taiwan:



A Board resolution passed

An ordinary resolution of the subsidiary's Board must be passed to dissolve the subsidiary.

B Shareholders' approval

The resolution to dissolve the subsidiary shall be indicated in the shareholders' meeting notice and be approved by the majority of the shareholders attending (which shall be holders of at least 2/3 of the total outstanding shares with voting rights).

C Application for dissolution

The liquidators of the subsidiary (the directors or persons appointed by shareholders) should file the application for dissolution.

D Liquidators take office

Within 15 days after taking office, the liquidators shall report to the court regarding the outset of the liquidation.

E Preparation of financial statements

The liquidators shall examine the financial conditions of the subsidiary and issue a report to the subsidiary's supervisors for their review and obtain shareholders' approval.

Court: Immediately after obtaining shareholders' approval, the liquidators shall file the financial statements to the court.

F Distribution of assets and completion of liquidation

The liquidators shall urge the creditors to declare their rights by means of public notice at least 3 times.

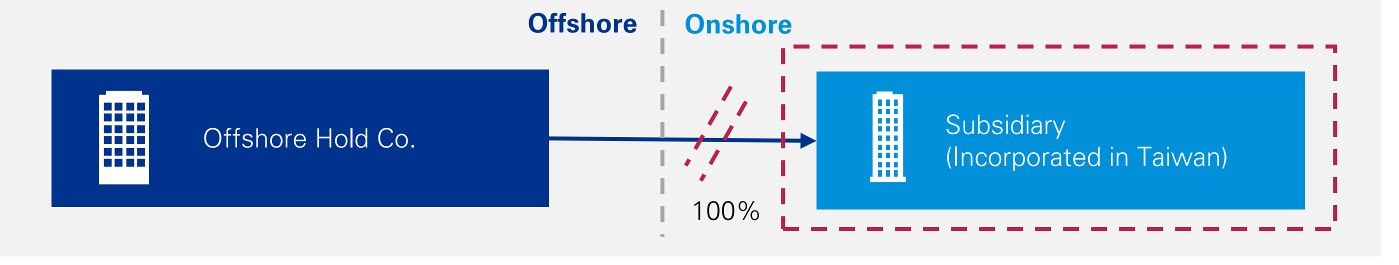
Within 15 days from the completion of the liquidation process, the liquidators shall, once again, prepare the financial statements for supervisors' review and shareholders' approval.

Court: Within 15 days after obtaining shareholders' approval, the liquidators shall file the financial statements to the court and keep all records for a period of 10 years.

Note that the process for liquidation of branches is similar, but they do not need to obtain shareholders' approval.

Tax - Exit Stage

When the offshore holding company decides to dissolve its subsidiary company in Taiwan, the following procedures and compliances should be complied with:



A Date of dissolution decision made

B WHT filing

Local Tax Office

The subsidiary company should file WHT statement to tax office in 10 days after the date of dissolution decision made

C Cancellation of VAT registration

Local Tax Office

The subsidiary company should file cancellation of VAT registration in 15 days after the date of dissolution decision made and pay the relevant VAT amount.

Ministry of Economic Affair and Local Government

The subsidiary company should file dissolution registration in 15 days after the date of dissolution decision made.

D To pay and file its current CIT return

Local Tax Office

The subsidiary company should pay and file its current CIT return in 45 days after the date of dissolution decision made.

E VAT filing for liquidation period

Local Tax Office

- The subsidiary company should apply for special purpose GUI and file VAT return on bi-monthly bases during liquidation period.
- The subsidiary company should pay and file its last VAT return in 15 days after the date of liquidation finished.

F To pay and file a CIT return on income earned from the liquidation period

Local Tax Office

The subsidiary company should pay and file a CIT return on income earned from liquidation in 30 days after the date of liquidation finished.

Note that if offshore head office decided to liquidate its Taiwan branch office, the process would be similar with the procedures for subsidiaries.

Chapter 4

Doing Business in Taiwan

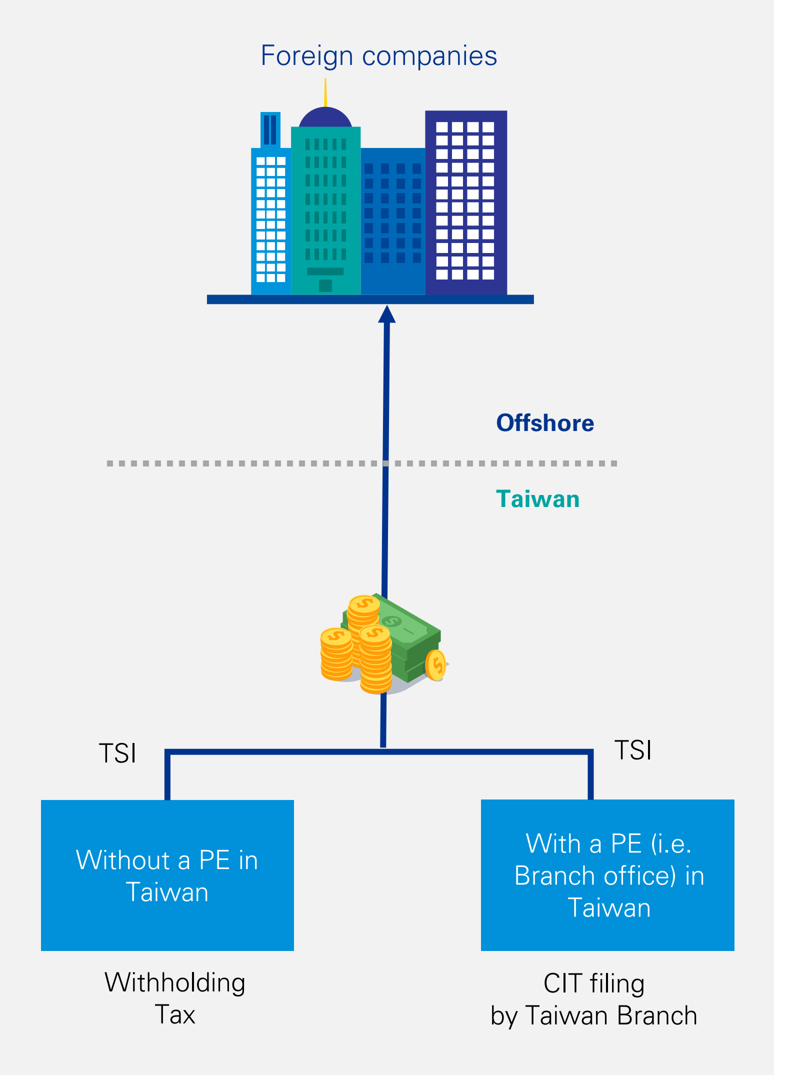
Taiwan-sourced Income (TSI)

Under Taiwan income tax rules, foreign companies should pay income tax on the TSI they derived.

In the case that a company with its headquarter outside of Taiwan, but having a fixed place of business here in Taiwan (i.e. a branch of a foreign company), should foreign companies derived TSI, such TSI should be included in its Taiwan Branch's CIT return and be subject to CIT at 20% under the force of attraction rule.

However, for the foreign company without a fixed place of business nor business agent in Taiwan, it will be deemed as a non-resident company and is generally subject to Withholding Tax (WHT) on its TSI.

Ways for Foreign Companies to Fulfill Its Tax Duty



Methods to Mitigate Tax on TSI

Double Taxation Agreements (DTAs)

The aforementioned WHT rates on payments of dividends, interest, and royalties may be reduced by comprehensive DTAs signed between Taiwan and the other 33 countries as of the end of Jan. 2021 if the recipient who is a resident of the other territory beneficially owns the dividends, interest, and royalties.

Moreover, for the business profit under DTAs, only in the case that foreign company carries on its business through its permanent establishment (PE) in Taiwan will be subject to CIT on the TSI attributable to that PE. In other words, foreign companies without PE could apply with Taiwan tax authority for approval to be entitled to business profit exemption under DTAs.

Below is a list of countries in which Taiwan has a DTA with and is currently enforced :

Australia
Hungary
Republic of North Macedonia
Slovakia
Austria
India
Malaysia
South Africa
Belgium
Indonesia
Netherlands
Kingdom of Eswatini
Canada
Israel
New Zealand
Sweden
Denmark
Japan
Poland
Thailand
Gambia
Kiribati
Senegal
United Kingdom of Great Britain and Northern Ireland
Germany
Luxembourg
Singapore
Vietnam
Paraguay
Italy
France
Switzerland
Czech

Methods to Mitigate Tax on TSI

Reducing WHT under Article 25 of the ITA

Based on Article 25 of the ITA, a foreign company that engages in construction, provision of technical services or rental of machine and equipment in Taiwan and has difficulties to allocate its costs and expenses onshore/offshore, could apply with the tax authority to adopt a deemed profit ratio of 15% to calculate its taxable income. This treatment could reduce the effective WHT rate from 20% to 3% on the gross payment. Please see the following table for more details.

Brief Introduction on Article 25 of the ITA	
Items	**Descriptions**
Regulations	Article 25 of the Income Tax Act
Service Types Provided	• Construction • Technical services • Rental of machine & equipment
Requirements	Having difficulties to allocate its costs and expenses onshore/offshore
Effective WHT Rate	Reducing effective WHT rate from 20% to 3% on the gross payment 【3% = Deemed profit ratio (15%) × WHT (20%)】
Documents	• The application form • The copy of the signed and effective contract • Other information required by tax office
Tax Refund after Approval	The foreign company could apply for a tax refund with the tax authority on the payments that are made before the approval was granted.
Others	The approval will be terminated when the underlying contract is terminated/changed.

Methods to Mitigate Tax on TSI

Apply deemed profit ratio and onshore contribution ratio to reduce WHT

Further, the MOF has issued a new tax ruling on September 26, 2019 after the announcement of Article 15-1 of the TSI Guidance, under which the foreign company without a PE in Taiwan could apply with tax authority in advance to calculate its taxable income derived from provision of services or conducting business by adopting (1) deemed profit ratio and (2) onshore contribution ratio to reduce its WHT. Please see the following table for more details.

Brief Introduction on Article 15-1 of the TSI Guidance

Items	Descriptions
Regulations	Article 15-1 of the TSI Guidance
Requirements	Foreign company without a PE in Taiwan could apply with tax authority in advance (i.e. before receiving payment) to calculate its taxable income derived from provision of services or conducting business.
Effective WHT Rate	The deemed profit ratio and onshore contribution ratio could vary in different cases depending on the main business item and transaction flow.
Documents	• The application form • The copy of the signed and effective contract • Description of the main business item • Onshore/offshore transaction flow • Other information required by tax office
Effective Time after Approval	Depends on the signed contract. The approval will be dissolved when the underlying contract is terminated/changed.
Others	The approval for deemed profit ratio and onshore contribution ratio is not applicable retroactively to payment already been subject to WHT.

E-commerce

CIT Regime on E-commerce

The MOF has issued a ruling to define e-commerce service and provide guidance on how to calculate the taxable income for cross-border e-commerce. The ruling defines e-commerce services as:

- Services that are rendered via internet download or transfer to computer equipment or other electronic devices.
- Services that do not need to be download and can be used online.
- Services that are rendered via internet or other electronic means.

Is It Taiwan Sourced Income?

In accordance with the Taiwan income tax rule, foreign entities would only be subject to Taiwan income tax on the TSI they derived. Under the context of the income tax regime on e-services, the following types of income will be considered as TSI:

Types of E-commerce Which Has TSI Derived

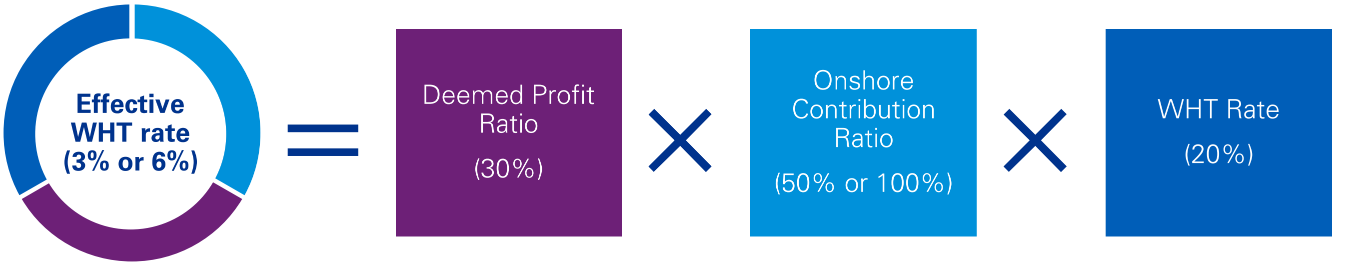
Services that are provided and utilized through internet download or other electronic transmission to computer equipment or mobile devices (e.g. stand-alone software or e-book)	Provided entirely offshore, without onshore individual or entity's assistance and insignificant connection with Taiwan	✗
	If it is required to be carried out with the assistance from onshore individual or entity	✓
Services that are provided and utilized online or other electronic means (e.g. online game, online ads, and streaming services)	Services purchaser is onshore	✓
Services that are utilized with specified physical location (e.g. hotel/lodging booking, car rental)	The location where the services is utilized is onshore	✓
Online platforms set up by offshore platform providers where onshore and offshore parties may transact	Either seller or purchaser is located in Taiwan	✓

E-commerce

CIT Implication on E-commerce

In terms of the calculation of the taxable income, the income tax regime allows the foreign e-services suppliers to claim actual costs and expenses incurred or adopt a deemed profit ratio. However, the use of deemed profit ratio would require pre-approval from the authority. In addition, the tax regime also allows the taxpayers to claim a contribution ratio, which determines how much of revenue derived is attributable to onshore activities and offshore activities. Similar to the utilization of deemed profit ratio, the use of contribution ratio would also require pre-approval from the tax authority.

If companies provide its service which defined as e-commerce service and have TSI derived, it will be subject to WHT at 20%. However, foreign e-commerce enterprises can file and calculate its taxable income by actual cost occurred or use deemed profit ratio (30%) and onshore contribution ratio (50% or 100%) in Taiwan to reduce its effective WHT rate to 3% or 6% with required accounting records or documents (provided obtaining prior approval from the tax authority).



E-commerce

VAT Regime on E-commerce

If foreign company without a fixed place of business in Taiwan sells e-services to Taiwan individuals, and the annual sales amount exceeds TWD 480,000, the foreign company should file for VAT registration with Taiwan tax authority and pay VAT in Taiwan since May 1, 2017.

Furthermore, the foreign company could choose to appoint an agent in Taiwan to assist with the tax filing requirements.

In addition, the foreign company is also required to issue cloud GUIs to its domestic purchasers in accordance with the Regulations Governing the Use of Uniform Invoices from January 1, 2020.

Penalty on non-compliance of the VAT Registration Requirement

A penalty will be imposed on such foreign enterprises for non-compliance of the tax registration requirement. Moreover, if the appointed tax agent fails to file the VAT returns and pay the taxes on behalf of the foreign e-commerce enterprises within the prescribed time, it will also be subject to the penalty.

May. 1 2017

VAT Registration & Compliances for E-commerce

- Required: Sales amount over TWD 480,000 per year
- Filing requirement: To file on a bi-monthly before the 15th day of every odd month

Jan. 1 2020

E-commerce shall issue cloud-GUIs

Chapter 5

Employment Matters & Personal Taxation

Legal - Employment Matters

Immigration

Pursuant to the Employment Service Act, a foreign national shall obtain work permit before s/he can start to work in Taiwan. If necessary, the foreign national may use his or her work permit to obtain the Alien Resident Certificate if the valid period of the work permit is more than 6 months. In addition, a foreign national can apply for Employment Golden Card (EGC), a four-in-one card combining work permit, resident visa, Alien Resident Certificate and re-entry permit, to work and resident in Taiwan.

The Relevant Processes for General/Special Work Permit and Resident Status

1 **Provide Supporting Documents by Employer/Foreign National**
- Location of Step: Home Country / Taiwan
- Responsibility: Local and foreign employer/Foreign national

2 Work Permit Application
- Location of Step: Taiwan
- Responsibility: KPMG(*)/Local employer

3 Applying for Visitor visa
- Location of Step: Taipei Economic and Cultural Office in locality
- Responsibility: Foreign National who cannot use visa-exempt entry to enter Taiwan

Main applicant can now enter Taiwan

4 Travel to Taiwan with visa-exempt entry or visitor visa
- Location of Step: Taiwan
- Responsibility: Foreign National

5 Visa conversion application
- Location of Step: Taiwan
- Responsibility: Foreign national who uses visa-exempt entry to enter Taiwan /KPMG(*)

6 Alien Resident Certificate application
- Location of Step: Taiwan
- Responsibility: Foreign national/KPMG(*)

(*) KPMG Taiwan could offer the relevant application service.

Legal - Employment Matters

Immigration

The Relevant Processes for EGC

1

Provide Supporting Documents by Foreign National

- Location of Step: Home Country
- Responsibility: Foreign national

2

EGC Application
Location of Step: Taiwan
Responsibility: Foreign national/KPMG*
Including:

a. Apply to the National Immigration Agency (NIA) to obtain EGC for initial review. (*the applicant doesn't need to stay in Taiwan at this stage)

b. NIA submit the application form to relevant government authorities for further review. (*the applicant doesn't need to stay in Taiwan at this stage)

c. Submit the original passport to the Ministry of Foreign affairs for their review once receiving the notice(**).

d. Obtain the EGC from NIA.

Main applicant can now legally work in Taiwan

(*) KPMG Taiwan could offer the relevant application service.

(**) The applicant needs to stay in Taiwan at this stage. In case s/he doesn't enter Taiwan, s/he shall submit the passport to the nearest Taipei Representative Office for further certification.

Personal Taxation

Personal Income Tax

Overview

Personal Income Tax (PIT) is levied on a territorial basis and is determined by residence status. That is, resident and non-resident individuals are only liable to income tax on the TSI they derived unless exempt under the provisions of the ITA and other related laws.

Alternative Minimum Tax (AMT)

AMT applies to Taiwan residents who are taxed on worldwide income at 20% AMT rate. For these taxpayers, if the offshore income (unrelated to Taiwan services) exceeds TWD 1 million, they are subject to AMT. General deductions are not allowed for AMT purposes, but an exclusion amount of TWD 6.7 million can be deducted. Taxpayers must pay the greater of the ordinary income tax liability or the AMT liability. A foreign tax credit may also be claimed to offset the AMT liability. In addition, according to the recent law amendment, gains from the sale of unlisted company's shares is subject to AMT from Jan 1, 2021.

AMT Calculation

Step 1:Calculate Basic Income Amount (BIA)
[BIA=Regular taxable income +add-back items]

↓

Step 2:Calculate Basic Tax Amount (BTA)
[BTA=(BIA- TWD 6,70,000)*20% AMT rate]

↓

Step 3:If BTA ≦ regular income tax amount (ITA) or not?

YES → No AMT is payable

NO → The difference between BTA and ITA is payable

Non-resident Tax Rate:

For the foreign taxpayer who stays below 183 days in a calendar year, a rate of 21% applies on dividends, 18% on wages and salaries, and 20% on commissions, rental income, royalties, professional fees, and prizes or awards. The rate of interest income is generally 20% but reduces to 15% for interest from certain debt instruments. A non-resident tax return should be filed. However, for the foreign individual who stays less than 90 days in a calendar year, his/her service remuneration obtained from the offshore employer is not subject to Taiwan income tax.

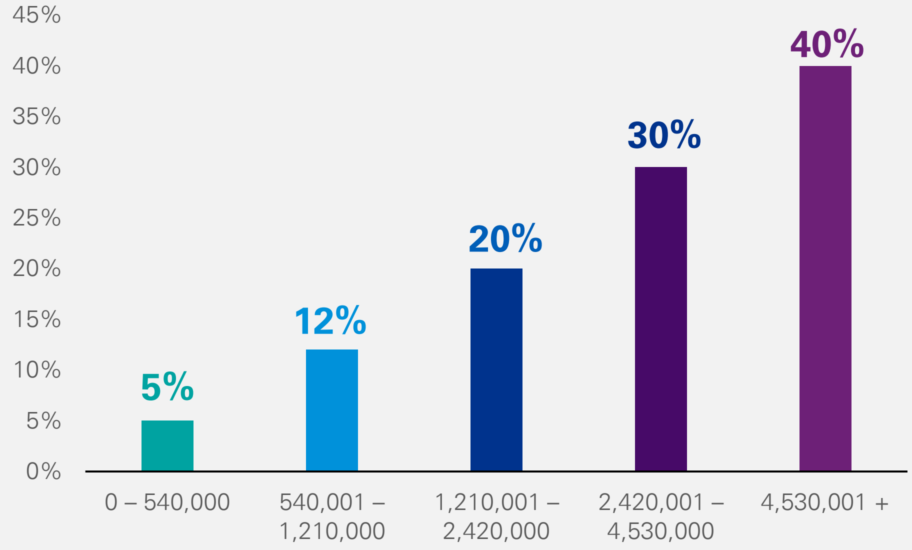
Chart of Non-resident Tax Rate

21%	• Dividends
18%	• Wages and Salaries
20%	• Commissions • Rental income • Royalties • Professional fees Prizes or Awards
20% or 15%	• Interest

Personal Taxation

Personal Income Tax

Resident Tax Rate



Progressive Tax Rate for Each Level of Income		
Taiwan Taxable Income (TWD)	**Tax Rate**	**Progressive Difference (TWD)**
0 – 540,000	5%	0
540,001 – 1,210,000	12%	37,800
1,210,001 – 2,420,000	20%	134,600
2,420,001 – 4,530,000	30%	376,600
4,530,001 +	40%	829,600

Tax Return Filing Due Date

May 31 annually, no extension*

Tax Benefit for Foreign Special Professionals

Effective on February 8, 2018, for qualified foreign taxpayers with special skills under the Act for the Recruitment and Employment of Foreign Professionals to apply for "Special Skilled Work Permit", then obtained 1st time working resident visa or obtained Employment Gold Card who stay over 183 days within a calendar year in Taiwan, the portion of annual compensation that exceeds TWD 3 million is only 50% taxable for income tax purposes. This tax benefit applies to assignments beginning after February 8, 2018 and applies for 3 tax years beginning the first year the taxpayer is resident in Taiwan for 183 days or more.

*The tax return filing due date for FY20 tax year is extended to June 30 due to COVID-19 pandemic.

Personal Taxation

Estate & Gift Tax

Estate 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, irrespective 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 when the property is located within Taiwan.

The total estate is valued according to the prescribed property value prevailing at the time of death and is subject to estate tax as follows:

Gift Tax

Gift tax is based on all property transferred annually and includes:

Gift made by a person who is a Taiwanese citizen and regularly resides in Taiwan, irrespective of whether the property gifted is located within or outside Taiwan.

Gift made by a person who is a Taiwanese citizen but resides outside Taiwan regularly, or who is not a Taiwanese citizen, only if the property given is located within Taiwan.

Generally, the taxpayer is the donor; however, in certain circumstances, the recipient could also be the taxpayer.

The total gift is valued according to the prescribed property value prevailing at the time of transfer and is subject to gift tax as follows:

Estate Tax Rate

Net Taxable Estate Amount (Less the exemption amount of TWD 12 million and prescribed deductions)	Tax Rate	Progressive Difference (TWD)
0 – 50,000,000	10%	0
50,000,001 – 100,000,000	15%	2,500,000
100,000,001+	20%	7,500,000

Gift Tax Rate

Net Taxable Gift Amount (Less the exemption amount of TWD 2.2 million and prescribed deductions)	Tax Rate	Progressive Difference (TWD)
0 – 25,000,000	10%	0
25,000,001 – 50,000,000	15%	1,250,000
50,000,001+	20%	3,750,000

Chapter 6

Other Taxes

Property Taxes

Consolidated Land and Housing Sales Tax

A new real property tax regime, consolidated land and housing sales tax, applies to capital gains from property transaction, which covers properties acquired on or after January 1, 2016 and has been amended on April 9, 2021. The newly amended consolidated land and housing sales tax regime will be effective from July 1, 2021.

The tax base is the property's sales price minus related costs, expenses, and the incremental net value of the land under Land Value Incremental Tax (LVIT).

The applicable tax rate for sales of land and housing would differ depending on the status of the recipient (domestic or foreign, company or individuals) as well as the holding period of the property. Please refer to the following table for the details regarding the tax rate for sales of land and building.

In addition to the sale of real property, if individuals or companies sell shares of the unlisted company which is land rich company, i.e. over 50% of the company's share value is comprised by land and housing in Taiwan, such sale of shares is also subject to the consolidated land and housing sales tax.

The Applicable Tax Rate for Sales of Land and Housing

	Resident individual	Non resident individual	Resident company	Non resident company
Time $\leq$ 2years	45%	45%	45%	45%
2 year $<$ Time $\leq$ 5 years	35%	35%	35%	35%
5 year $<$ Time $\leq$ 10 years	20%	35%	20%	35%
10 year $<$ Time	15%	35%	20%	35%

Land Value Tax

Land value tax (LVT) is levied on a taxpayer's total land value assessed and publicly announced by the relevant local government authority at progressive rates ranging from 1% to 5.5%, or at special rates depending on the use of the land.

Land Value Incremental Tax

The transfer of land in Taiwan is currently subject to LVIT. It is levied on the increase in the current assessed land value during the ownership period, adjusted for inflation, at regular progressive rates ranging from 20% to 40%, or at a special rate of 10%. Tax reduction for long term possession may be granted additionally.

House Tax

A house tax is imposed on all buildings in Taiwan at varying rates, depending on their classification. It is levied annually on the assessed value of the building at a rate ranging from 1.2% to 3.6% for residential buildings and 3% to 5% for commercial buildings.

In addition, Taiwan imposes "Vehicle license tax" and "Deed tax" on property.

Securities & Futures Transaction Taxes

Securities Transaction Tax (STT)

STT tax is imposed on the sale of certain types of securities (i.e. qualified securities). The applicable rates and securities are as following table.

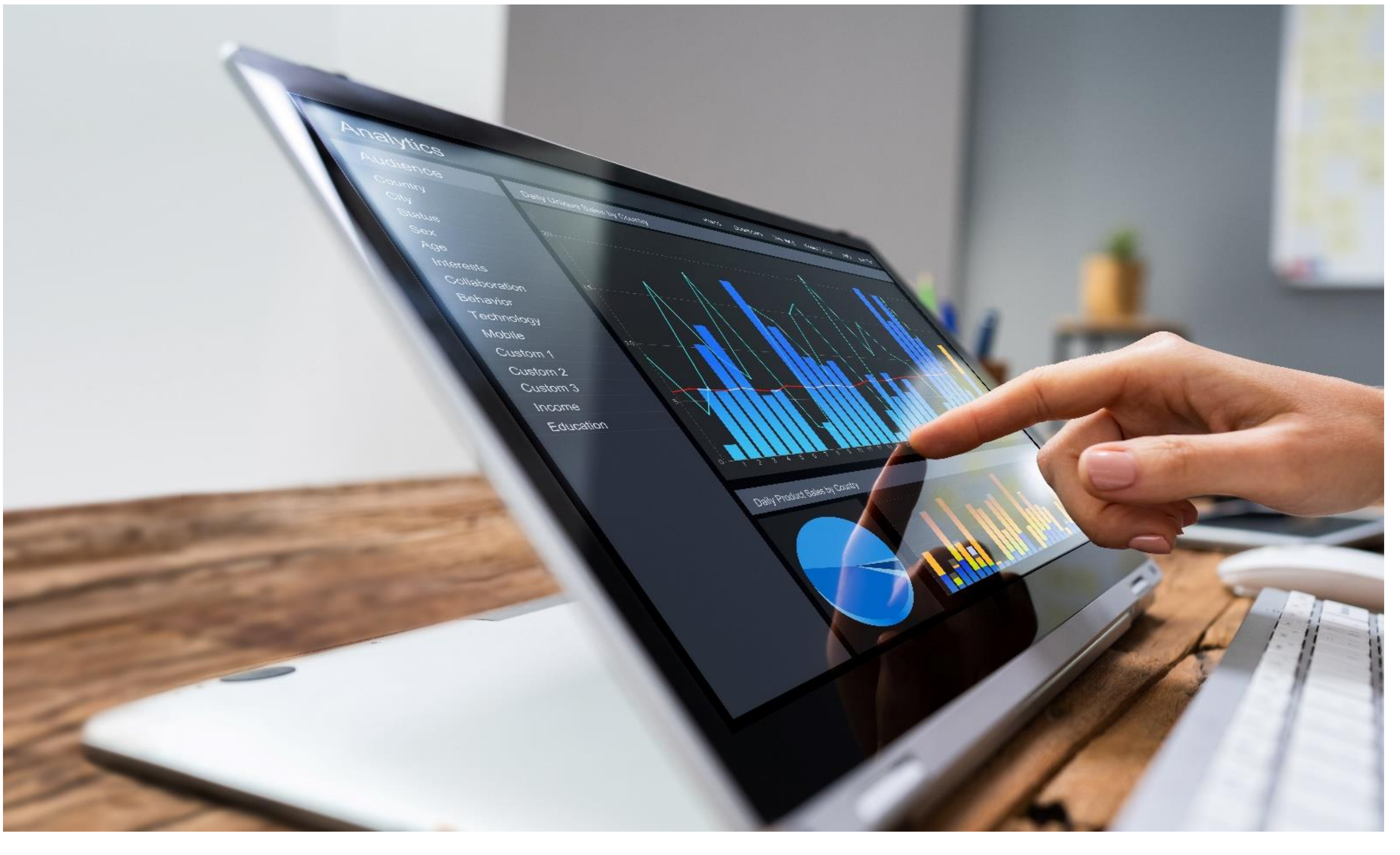
However, in order to stimulate the bond market, corporate bonds and financial debentures are exempt from STT until December 31, 2026.

Futures Transaction Tax (FTT)

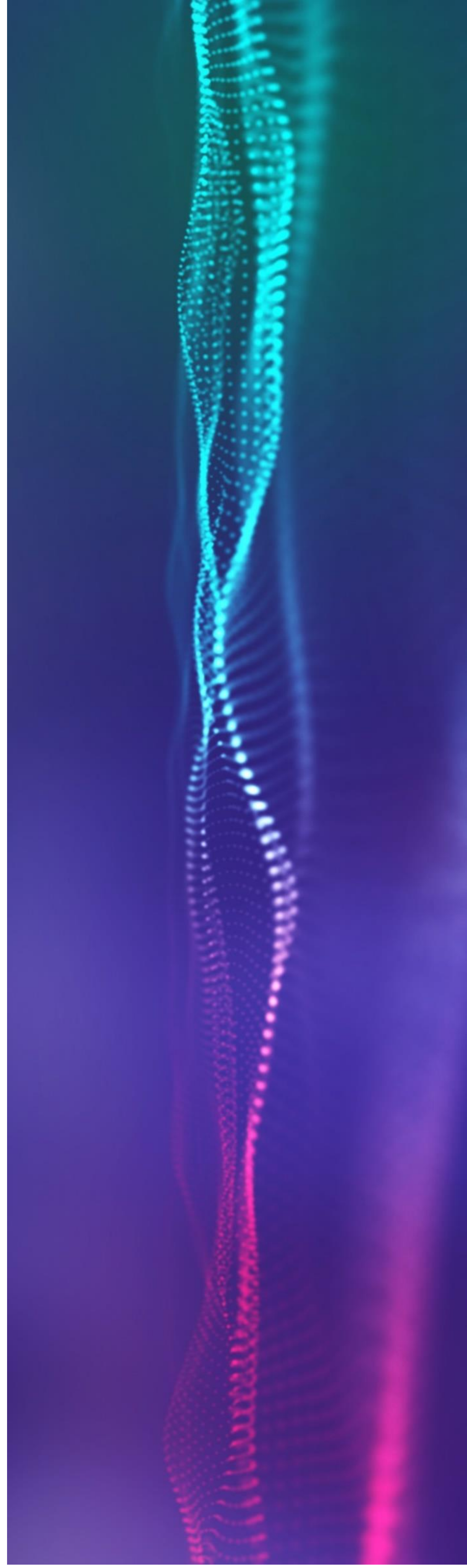
FTT is imposed on trading of futures on the Taiwan Futures Exchange. And the tax rates of FTT depend on types of futures.

STT & FTT Tax Rate

Types of Tax	Taxable items	Tax rates
STT	Share certificates issued by companies and certificates or receipts showing rights in share certificates	0.3% of the transaction price
	Corporate bonds and other securities offered to the public	0.1% of the transaction price
FTT	Futures on the Taiwan Futures Exchange	Tax rates depend on types of futures



Other Taxes



Commodity Tax

Commodity tax is a single-stage sales tax, levied on taxable commodities listed in the Commodity Tax Act 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. Some types of commodities may be exempt from the tax under certain conditions. Taxable commodities include rubber tires, cement, beverage, flat glass, oil and gas, electric appliances and vehicles based on their value or volume in specific circumstances and the tax rates vary from 8% to 30%. The taxpayers of commodity tax are the manufacturers of commodities produced domestically, the consignees or holders of the bills of lading or holders of imported taxable commodities.

Tobacco and Alcohol Tax

Tobacco and alcohol products, whether manufactured domestically or imported from abroad, are subject to tobacco and alcohol tax.

Specifically Selected Goods and Services Tax

A specifically selected goods and services tax shall be imposed on sale, manufacture, and import of specifically selected goods or services within the territory of Taiwan.

KPMG

Contact us

Inbound and M&A Tax Advisory

Lynn Chen
Partner
+886 2 8101 6666 ext.05676
lhchen@kpmg.com.tw

Ethan Hsieh
Director
+886 2 8101 6666 ext.11307
ethanhsieh@kpmg.com.tw

Jack Chen
Assistant Manager
+886 2 8101 6666 ext.18947
jackchen5@kpmg.com.tw

International Tax and Indirect Tax Advisory

Ellen Ting
Partner
+886 2 8101 6666 ext.07705
eting@kpmg.com.tw

Sylvia Chiang
Associate Director
+886 2 8101 6666 ext.13062
sylviachiang@kpmg.com.tw

Investment & Registration Services

Amy Lee
Associate Director
+886 2 8101 6666 ext.00582
alee4@kpmg.com.tw

Ying-Tai Ting
Associate Director
+886 2 8101 6666 ext.16154
yingtaiting@kpmg.com.tw

Legal Services

Lawrence Ong
Executive Consultant
+886 2 2728 9696 ext.16907
lawrenceong@kpmg.com.tw

Fang-Yung Lin
Associate, ATTORNEY AT LAW
+886 2 2728 9696 ext.15914
fangyunglin@kpmg.com.tw

@KPMGTaiwan

Tax 360 app

home.kpmg/tw

iOS/Android