

GMS Flash Alert

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Taiwan – Amended Tax Law on Rental Expense Deductions

The Ministry of Finance in Taiwan announced amendments to Article 17 of the Income Tax Act,¹ shifting the rental expense deduction from the “itemized deduction” category to the “special deduction” category and capped yearly.

This amendment will be effective starting with the 2024 tax year and will affect tax returns filed before May 31, 2025, and onwards.

WHY THIS MATTERS

Before the amendment, rental expenses in Taiwan were deductible as part of itemized deductions, which required taxpayers to exceed a specific threshold to claim the rental expense deduction. This meant that all taxpayers were able to claim a rental expense deduction as long as such threshold was exceeded.

After this amendment, rental expenses are categorized as special deductions, with a cap of NT\$180,000 per year. This change simplifies the deduction process for low-to-middle income earners, who no longer have to exceed a specific threshold to claim a rental expense deduction.

However, the amendment introduces strict exclusions, particularly for high-income earners (i.e., those taxed at 20 percent or higher) and homeowners in Taiwan, who are no longer eligible to claim this rental expense deduction, potentially increasing their overall tax liability.

This amendment affects tax residents in Taiwan, including foreign individuals residing or working in Taiwan and are renting homes in Taiwan, especially those whose income tax bracket falls at 20 percent or higher. This amended rule creates restrictions on claiming the rental expense deduction and may increase the individual’s overall tax liability while working in Taiwan.

More Details

The amendment to Article 17 of Taiwan's Income Tax Act shifting the rental expense deduction from the “itemized deduction” category to the “special deduction” category came into effect starting January 1, 2024. Under this amended law, the rental expense deduction has increased from NT\$120,000 to NT\$180,000, but with stricter exclusions for higher-income earners and homeowners in Taiwan.

In Taiwan, special deductions are additional deductions that taxpayers can claim to further reduce their taxable income. Unlike standard deductions, which apply to all tax residents, or itemized deductions, which require taxpayers to provide documentation of specific expenses in order to claim them, special deductions are aimed at supporting specific groups of people or situations. These deductions help reduce the taxpayer's overall tax liability by allowing him or her to deduct certain qualifying expenses from his or her gross income.

Special deductions in Taiwan include the following:

- **Disability deduction:** Deduction for tax dependents with disability.
- **Educational deduction for child's university or college tuition:** Deduction for educational expenses for dependent children.
- **Long-term care deduction:** A special deduction available for taxpayers who incur long-term care expenses for family members.

Now, with the amendment to Article 17 of the Income Tax Act, rental expenses have also been added to the list of special deductions.

Eligibility and Exclusion Criteria

The taxpayer, the taxpayer's spouse, and his/her tax dependents renting in Taiwan to live (and not for business purposes) may deduct the rental expense from their annual gross income at a maximum cap of NT\$180,000 per year.

Further, according to Taiwan's Income Tax Act, taxpayers **cannot** claim the special deduction for rental expenses if they meet any of the following criteria:

- 1. Homeowners of Taiwan Property:** If the taxpayer, his/her spouse, or a tax dependent owns property in Taiwan.
- 2. Tax Rate Exceeds 20 Percent:** If the taxpayer's or the spouse's total taxable income is subject to a tax rate of 20 percent or more (meaning their net taxable income exceeds NT\$1,330,001 after deducting the long-term care and rental expense deductions).
- 3. Tax Rate of Separately Computed Income Exceeds 20 Percent:** If the tax rate of taxpayer's or the spouse's income, computed separately, is equal to or greater than the tax rate of 20 percent.
- 4. Basic Income Over NT\$7.5 Million:** If the taxpayer's basic income (which includes foreign-sourced income) exceeds NT\$7,500,000 and subject to 20 percent Alternative Minimum Tax (“AMT”). Note that even if the taxpayers do not claim the mortgage interest expense deduction for owning Taiwan property (which is available under the itemized deduction category), if they are taxed under the AMT, they are still not eligible for the rental expense deduction.
- 5. Dividend Income Taxed at 28 Percent:** If the taxpayer opts for the separate taxation of dividends at the flat 28-percent rate.

KPMG INSIGHTS

The shift of rental expenses from itemized deductions to special deductions affects both low-to-middle income earners and high-income earners in Taiwan. High-income earning taxpayers may face higher tax liabilities, because they are largely excluded from claiming this special deduction. On the other hand, low-to-middle income taxpayers can continue to benefit from the NT\$180,000 rental expense deduction per year with a more simplified process available under the system.

High-income individuals and foreign individuals in Taiwan should consult with their qualified tax advisers or a member of the GMS tax team with KPMG in Taiwan (see the Contacts section) to determine if they, their spouses, or tax dependents meet any of the above criteria and whether they are entitled to claim the rental expense deduction.

FOOTNOTE:

1 Ministry of Finance, Taiwan Income Tax Act, Article 17, viii (in English) "[Income Tax Act - Article Content - Laws & Regulations Database of The Republic of China \(Taiwan\) \(moj.gov.tw\)](#)."

Also see, National Taxation Bureau of Kaohsiung (in English) "[Can I claim a special deduction for rental expense?](#)"

RELATED RESOURCES:

Ministry of Finance, Income Tax Act (<https://law.moj.gov.tw/ENG/LawClass/LawAll.aspx?pcode=G0340003>).

Ministry of Finance, Frequently Asked Questions (<https://www.mof.gov.tw/Eng/singlehtml/1920d86cc1924f0ab167daea88210745?cntId=6499744d40d64c96aa172eb5cc0411f0>).

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NT\$1 = €0.028
NT\$1 = US\$0.031
NT\$1 = A\$0.046
NT\$1 = £0.0237

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Contact us

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