Taiwan Tax Profile

Produced in conjunction with the KPMG Asia Pacific Tax Centre

Updated: January 2013
## Contents

1. Corporate Income Tax ............................. 1
2. International Treaties for the Avoidance of Double Taxation .......... 6
3. Indirect Tax (e.g. VAT/GST) .......................... 7
4. Personal Taxation ..................................... 8
5. Other Taxes ........................................... 9
6. Free Trade Agreements (FTA) .......................... 12
7. Tax Authority ........................................ 13
## 1 Corporate Income Tax

<table>
<thead>
<tr>
<th>Corporate Income Tax</th>
<th>Corporate income tax</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Tax Rate</strong></td>
<td>The corporate income tax rate is 17 percent and the threshold for subjecting a company to corporate income tax is NTD 120,000.</td>
</tr>
<tr>
<td></td>
<td>A resident company’s earnings generated in a year and remaining undistributed by the end of the following year are subject to a 10 percent surtax.</td>
</tr>
<tr>
<td></td>
<td>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 has increased from 10 percent to 12 percent as at 1 January, 2013</td>
</tr>
<tr>
<td><strong>Residence</strong></td>
<td>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.</td>
</tr>
<tr>
<td></td>
<td><em>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.</em></td>
</tr>
<tr>
<td><strong>Compliance requirements</strong></td>
<td>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.</td>
</tr>
</tbody>
</table>
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.

Revenue from leasing motion pictures is subject to withholding tax of 10 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.

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

**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**
Tax consolidation is permitted for either financial holding companies which hold 90 percent or more of the shares in a subsidiary, or companies that hold 90 percent or more of the shares in a subsidiary, as a result of engaging in a merger or acquisition.

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**
Gross proceeds received by the transferor of ‘qualified securities’ will 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.

**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**
Taiwan’s transfer pricing regime adheres to the ‘arm’s length principle’ and is based on US Internal Revenue and OECD transfer pricing guidelines.

Entities are required to maintain supporting documentation for the transfer pricing positions taken, and provide this to the tax authority upon request.
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.

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.

**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**

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.

**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.
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 in the Taiwan Free Trade Zone.
- Simple processing operations in the Taiwan Free Trade Zone.
## 2 International Treaties for the Avoidance of Double Taxation

<table>
<thead>
<tr>
<th>In Force</th>
<th>Australia</th>
<th>Hungary</th>
<th>Netherlands</th>
<th>South Africa</th>
<th>Vietnam</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Belgium</td>
<td>India</td>
<td>New Zealand</td>
<td>Sweden</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Denmark</td>
<td>Indonesia</td>
<td>Paraguay</td>
<td>Swaziland</td>
<td></td>
</tr>
<tr>
<td></td>
<td>France</td>
<td>Israel</td>
<td>Senegal</td>
<td>Switzerland</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Gambia</td>
<td>Macedonia</td>
<td>Singapore</td>
<td>Thailand</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Germany</td>
<td>Malaysia</td>
<td>Slovak Republic</td>
<td>United Kingdom</td>
<td></td>
</tr>
</tbody>
</table>

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.

Core business sales revenue of financial institutions is subject to 2 percent GBRT, while 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 services provided in connection with exports, VAT is reduced to zero percent.

Certain goods and services are exempt from GBRT and VAT.

Further information
For more detailed indirect tax information on various countries, refer to:
KPMG's VAT/GST Essentials
4 Personal Taxation

Income Tax

Top Rate

The top rate of personal income tax in Taiwan is 40 percent and applies to taxable income in excess of TWD 4,230,000.

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.

New rules for capital gains tax levied on the sale of stocks, applying to both Taiwan resident and non-resident individuals come into force on January 1, 2013.

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, and tobacco and liquor tax.

Commodity tax is a single-stage sales tax, levied on taxable commodities (as specified in the Statute for Commodity Tax) 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. Thus imported tobacco and liquor products are subject to tobacco and liquor tax, a tobacco health and welfare surcharge, and customs duty and VAT.

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 checks)
- 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.

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 gift tax 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 - 0.004 percent on the transaction price of the contract.
- 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.

Luxury tax

Luxury tax is imposed to curb property speculation and the wealth gap, and to slow increases in property prices. In this respect, the following will be taxed at 10 or 15 percent:

- Real property not lived in by the owner and sold within two years of purchase – the vendor is taxed upon sale
- Luxury cars, yachts and private jets valued at TWD 3 million or more – the manufacturer is liable for luxury tax when the products leave the factory, or the importer is liable upon import
- Luxury goods worth TWD 500,000 or more, including coral, ivory, fur coats, and furniture – the manufacturer is liable for luxury tax when the products leave the factory, or the importer is liable upon import
- Memberships priced at TWD 500,000 or more (e.g. golf club membership) – luxury tax is imposed on the vendor on sale of the membership

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

### In negotiation
- Singapore
- New Zealand

### 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  

### Tax audit activity

The tax authority annually sets out specific criteria indicating the group of taxpayers 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
- Expenses in relation to land and securities’ transaction income
- Calculation of five year tax holiday incomes
- Obsolete inventory

**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.
Contact us

Sherry Chang  
Partner in Charge, Tax  
KPMG in Taiwan  
T  +886 2 8101 6666 ext. 04590  
E  schang1@kpmg.com.tw

Kevin Chen  
Partner, Tax  
KPMG in Taiwan  
T  +886 2 8101 6666 ext. 03174  
E  kchen4@kpmg.com.tw

Vivia Huang  
Partner, Tax  
KPMG in Taiwan  
T  +886 2 8101 6666 ext. 03567  
E  viviahuang@kpmg.com.tw

www.kpmg.com/tax

This profile was provided by professionals from KPMG’s member firm in Taiwan.

The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

© 2013 KPMG International Cooperative (“KPMG International”), a Swiss entity. Member firms of the KPMG network of independent firms are affiliated with KPMG International. KPMG International provides no client services. No member firm has any authority to obligate or bind KPMG International or any other member firm vis-à-vis third parties, nor does KPMG International have any such authority to obligate or bind any member firm. All rights reserved.

The KPMG name, logo and “cutting through complexity” are registered trademarks or trademarks of KPMG International.