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Guide to Taiwan Profit-Seeking Enterprise Income Tax

1. Introduction

A profit-seeking enterprise is defined as an entity established in the form of a sole proprietorship, partnership, company (including a Taiwan branch of a foreign company), and any other form of organization that operates for profit-seeking purposes through a fixed place of business, regardless of whether the enterprise is owned by the government, private sector, or jointly by the government and the private sector.

Profit-Seeking Enterprise Income Tax in Taiwan is similar to Enterprise Income Tax in China in nature.

2. Tax Base and Tax Rate

A profit-seeking enterprise in the form of a sole proprietorship, partnership, or company (including a subsidiary that is wholly owned by a foreign company or a joint venture company) is subject to profit-seeking enterprise income tax on its worldwide income. The taxable income of a company for purposes of the profit-seeking enterprise income tax is gross income (including exempt income), less all allowable expenses and losses. A foreign tax credit is available for income tax paid in other countries on income derived from outside Taiwan. The credit may be used to offset the foreign tax paid against the enterprise’s Taiwan income tax liability, but the credit may not exceed the tax liability that would result if the foreign-source income is added to the Taiwan taxable income and taxed at the applicable domestic rate.

A profit-seeking enterprise whose head office is outside Taiwan (such as a foreign company and a Taiwan branch of a foreign company) is considered non-resident for tax purposes, and is subject to profit-seeking enterprise income tax only on its Taiwan-source income.

The minimum taxable income, tax brackets, and tax rates for profit-seeking enterprise income tax purposes are as follows:

Minimum Taxable Income, Tax Brackets, and Tax Rates for Profit-Seeking Enterprise Income Tax	
Taxable Income Bracket (NTD)	Tax Rate
Up to 120,000	None
Over 120,000	17% of total taxable income, but income tax liability may not exceed 50% of the portion of taxable income over NTD 120,000

3. Exempt Income

The following categories of income are exempt from profit-seeking enterprise income tax:

(1) Income derived from the sale of land.

(2) Income from securities transaction, as well as income from futures transactions under the Futures Transaction Tax Act (tax on such transactions is temporarily suspended and losses incurred on such transactions are not deductible in computing taxable income).

(3) Business income derived from the operation in Taiwan of a foreign enterprise engaged in international transportation, provided reciprocal treatment is granted by the counterparty foreign country to a Taiwan international transportation enterprise operating in its territory.

(4) Royalty paid to a foreign enterprise for the use of its patent rights, trademarks, and/or various kinds of special licensed rights in order to introduce new production technology or products, improve product quality, or reduce production cost under the approval of the competent authority as a special case.

(5) Remuneration paid to a foreign enterprise for technical services provided for the construction of a production facility for an important manufacturing enterprise, as determined and approved by the competent authority.

(6) Interest on loans granted to the Taiwan government or legal entities in Taiwan by a foreign government or an international financial institution for economic development.

(7) Interest on loans granted by foreign financial institutions to legal entities in Taiwan to finance important economic construction projects approved by the MOF.

(8) Interest derived from preferential-rate export loans offered to, or guaranteed for, legal entities in Taiwan by foreign government institutions and foreign financial institutions that specialize in offering such loans or guarantees.

(9) Net dividends or net surplus earnings received by a profit-seeking enterprise organized as a company from an investment in another domestic profit-seeking enterprise.

4. Deductible Expenses/Costs

Costs and expenses incurred by an enterprise in carrying out its main and auxiliary activities may be deducted up to certain limits provided the taxpayer has sufficient supporting documentation.

(1) Depreciation

Taiwan allows the following methods of depreciation of fixed assets: the straight-line method, fixed percentage on diminishing book value method, sum-of-the-year's-digits method, units-of-output method, working-hour method, and other methods approved by the competent authorities.

For income tax purposes, the service life of fixed assets for depreciation purposes may not be less than that prescribed in the Table of Service Life of Fixed Assets. Depreciation generally is calculated based on the purchase price of the depreciable asset.

(2) Bad Debts

An allowance for doubtful accounts must be provided for accounts receivable and notes receivable. The allowance may not exceed 1% of the outstanding balance of total accounts and notes receivable. For financial institutions, the allowance may not exceed 1% of the outstanding balance of credit.

If projected bad debts qualified to be written off exceed the above limit, the taxpayer may set aside as an allowance the average of its actual bad debts incurred in the three preceding years.

5. Tax Loss Carryovers

Tax losses may be carried forward for 10 years. Specifically, where a profit-seeking enterprise organized as a company (including a Taiwan branch of a foreign company) keeps a complete set of accounting books and files a "Blue Return" (a tax form printed on blue paper and designed to encourage a profit-seeking enterprise to accurately report its income) in the years in which the losses were incurred and in the years in which the losses were declared, or where the losses are duly certified by a public accountant and declared within the prescribed period, the tax losses may be carried forward for 10 years. The carryback of losses is not permitted.

6. Alternative Minimum Tax

Taiwan requires the calculation of a separate Alternative Minimum Tax (AMT) in accordance with the Income Basic Tax Act. A profit-seeking enterprise with a fixed place of business or business agent in Taiwan is subject to a separate AMT calculation if it earns certain income that is tax-exempt or that enjoys certain tax incentives under the ITA or other laws, or if the basic income of the enterprise exceeds NTD500,000. If the AMT as calculated exceeds the profit-seeking enterprise income tax after deducting investment tax credits, the enterprise must pay the difference. AMT is calculated as follows:

AMT = [Taxable income + transaction income on securities and futures + exemption income – NTD 500,000] x 12%

7. Fiscal Year and Return Filing

(1) Fiscal Year

The fiscal year commences on January 1 and ends on December 31. A profit-seeking enterprise may elect to adopt a special fiscal year at the time it is established and can change its fiscal year with approval from the tax authorities.

(2) Annual Tax Return

An annual income tax return must be filed between May 1 and May 31 covering the income of the preceding tax (calendar) year. The annual tax return will report an enterprise’s operating revenue, expenses, gross margin, costs, net profits, and non-operating income or losses. An enterprise must attach to its annual return a balance sheet and a statement of any changes in its imputed tax credit account for the preceding year and retained earnings as calculated in accordance with the ITA.

A profit-seeking enterprise whose fiscal year is different from the calendar year must file the return on or before the last day of the fifth month after the close of the fiscal year. For example, the tax return due date would be 31 December 2015 if the fiscal year of the enterprise ends on 31 July 2015.

(3) Provisional Tax Return

A profit-seeking enterprise also must file a declaration for the provisional payment of tax on a prescribed form, and make a provisional payment in the ninth month of the fiscal year. The provisional tax is equal to 50% of the amount of tax payable as shown in the previous year's tax return.

A profit-seeking enterprise organized as a company (including a Taiwan branch of a foreign company) that keeps a complete set of account books under the tax rules, uses the Blue Return, or entrusts a certified public accountant to examine and certify its provisional tax return, and files the return within the prescribed period may compute the provisional tax payment based on the operating income derived in the first six months of the current year under the relevant regulations and at the applicable tax rates.

Profit-seeking entities that use special fiscal years can compute their provisional tax payment according to the calendar year and fie their return eight months after the first month of the special fiscal year (e.g. for a fiscal year beginning in April, the provisional tax return would be filed between 1 December and 31 December).

8. Imputation System

Under Taiwan's imputation system, when a Taiwan company distributes its after-tax profits as dividends to individual resident shareholders, the distributing company also allocates the profit-seeking enterprise income tax paid on the dividends to the shareholders as an imputed tax credit.

An individual shareholder can use the imputed credit to offset his/her individual income tax liability. Consequently, the profit-seeking enterprise income tax paid by a Taiwan company becomes an advance tax payment for its shareholders. For Taiwan corporate shareholders, the dividends received are not considered taxable income, but the tax credits are included in the balance of the company's shareholder-imputed credit account (ICA) and will be imputed to the corporate shareholders for future dividend distributions.

There is no mechanism for passing on the imputation tax credit to non-resident foreign shareholders (including individuals and businesses). For foreign shareholders, tax is withheld at source on any cash or share dividends distributed by a resident company in Taiwan. The withholding tax rate on dividends generally is 20%, but this rate can be reduced to 10% under many of Taiwan's tax treaties.

(1) Undistributed Retained Earnings

In line with the imputation system, profits that are earned in a year but not distributed by the fiscal year end are subject to a 10% advance retained earnings tax that may be claimed as a credit against the fiscal tax liability of both Taiwan and foreign shareholders. The 10% retained earnings tax is calculated based on the company's accounting income. The undistributed retained earnings of profit-seeking enterprises are after-tax profits less specific items prescribed in the ITA.

(2) Imputed Tax Credit Calculation

A profit-seeking enterprise must use the following formula to compute the tax credit granted to its shareholders along with post-1998 dividend distributions:

(i) Imputed Tax Credit Ratio = balance of imputed credit account / aggregate balance of retained earnings

(ii) Amount of Shareholder Tax Credits = amount of net dividends x imputed tax credit ratio

There is an upper limit for the imputed tax credit ratio: if the ratio calculated is higher than the upper limit, the upper limit will be used in determining the amount of shareholder tax credits. The applicable upper limits of the imputed tax credit ratio are:

(i) 33.33% for accumulated retained earnings that were not assessed the 10% retained earnings tax before 2009 and 20.48% for accumulated retained earnings that were not assessed the 10% retained earnings tax after 2010.

(ii) 48.15% for accumulated retained earnings that were assessed the 10% retained earnings tax before 2009 and 33.87% for accumulated retained earnings that were assessed the 10% retained earnings tax after 2010.

(iii) For an aggregate amount of undistributed surplus earnings partially accumulated before 2009 and partially accumulated after 2010, partially assessed and partially not assessed with the 10% retained earnings tax, the sum of the amounts of deductible tax to be calculated is based on the applicable tax deduction ratios specified in the preceding bullets in respect of the different proportions of the two parts of undistributed surplus earnings to the aggregate amount of the undistributed surplus earnings.