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Guide to Taiwan Taxation System

1. Introduction

Taiwan's tax regulations provide different tax designations that accommodate to the rapid changes in industry and the rapid development of industry and commerce; there are clear regulations governing, for example, income taxes, business taxes, and customs tariffs.

2. Classification by Taxpayer

Income tax is classified into consolidated income tax for individual taxpayers and profit-seeking enterprise income tax for profit-seeking enterprises.

3. Individual Tax

(1) Taxable income for individual

For any individual having income from sources in the Taiwan, a consolidated tax shall be levied on his or her income derived from those sources. For any individual not residing in the Taiwan but having income from sources in the Taiwan which is subject to withholding tax, income tax payable by such non-resident on all such income shall be withheld and paid at the respective sources unless otherwise provided in the Income Tax Act. In case an individual not residing in the Taiwan has income that does not fall within the withholding scope, he or she shall file a tax return and make tax payment in accordance with the prescribed tax rates.

(2) Taxation of individual not residing in the Taiwan

Salaries paid to an “individual not residing in the Taiwan” (expatriate) by a non-resident employer and by the local subsidiary or branch or by any other local entity for services rendered in the Taiwan are subject to income tax. However, if the expatriate stayed in the Taiwan for not more than 90 days (cumulative) during a calendar year, salaries received from the non-resident employer are not subject to income tax.

Under Paragraph 3 of Article 8 of the Income Tax Act, any individual not residing in the Taiwan but whose stay in Taiwan exceeds ninety (90) days during a tax year is required to file a tax return and make tax payment in accordance with the law on remuneration obtained from employers outside the territory of the Taiwan for services rendered within the territory of the Taiwan. The term “individual residing in the Taiwan” as used in the Income Tax Act means a natural person domiciled and residing at all times within the territory of the Taiwan, or a natural person not domiciled within the territory of the Taiwan but residing within the territory of the Taiwan for 183 days or more within a tax year. The term “individual not residing in Taiwan” denotes an individual other than those as provided above.

(3) Individual income tax rates

Starting 2015, the tax rates for the consolidated income tax shall be 5%, 12%, 20%, 30%, 40% and 45%.

Consolidated Income Tax Rates – Financial Year 2015

Net Taxable income (NTD)	Tax Rate	Quick Deduction(NTD)
Less than 520,000	5%	0
520,001 to 1,170,000	12%	36,400
1,170,001 to 2,350,000	20%	130,000
2,350,001 to 4,400,000	30%	365,000
4,400,001 to 10,000,000	40%	805,000
10,000,001 and above	45%	1,305,000

4. Profit-Seeking Enterprise Income Tax

(1) Taxable Income

For any profit-seeking enterprise having its head office within the territory of Taiwan, a profit-seeking-enterprise income tax shall be levied on its total profit-seeking-enterprise income derived within and outside the territory of the Taiwan; provided that in case income tax has been paid on the income derived outside of the territory of the Taiwan in accordance with the tax law of the source country of that income, such tax paid may be deducted from amount of tax payable at the time of filing annual returns on the total profit-seeking-enterprise income, to the extent that such deduction shall not exceed the amount of tax which, computed at the applicable domestic tax rate, is increased in consequence of inclusion of its income derived from abroad.

For any profit-seeking-enterprise having its head office outside the territory of the Taiwan, the profit-seeking-enterprise income tax shall be levied only on income derived within the territory of the Taiwan. Compensation received by a foreign enterprise, institution, organization, or association for services rendered in the Taiwan directly from its Taiwan clients is considered Taiwan source income, subject to income tax.

(2) Income from Securities and Futures Transactions

All income derived from securities or futures transactions within the territory of Taiwan is not taxable for income tax but shall be included in calculation of Income Basic Tax.

(3) Dividend Income

Dividends are distributed from the after-tax surplus profits. If dividends are distributed by a profit-seeking-enterprise in Taiwan, dividends received by a profit-seeking-enterprise are not included as taxable income. The amount of deductible tax contained in the aggregate of dividends so distributed shall be included in the balance of such profit-seeking- enterprise's shareholder tax offsetting account.

(4) Different Accounting Year

Profit-seeking-enterprises may apply to the tax authority to adopt a non-calendar year as their fiscal year, while the taxable year of individuals shall be on the basis of a calendar year.

(5) Sundry Incomes

Various income received by the same taxable entity shall be combined for filing a tax return.

(6) Tax Rates

Tax rate for Profit-Seeking-Enterprise Income Tax was 25% in 2009. Starting 2010, tax rate shall be decreased to 17%.

Tax Rates for Profit-Seeking-Enterprise Income Tax

Taxable Income (TI) Bracket (NTD)	Rate	Formula
Less than 120,000	0	
Over 120,000 and less than 200,000		$T = (TI - 120,000) \times 1/2$
Over 200,000	17%	$T = TI \times 17\%$

(7) Imputation Income Tax

Starting from 1 January 1998, individual resident shareholders receiving dividends from a Taiwan company are entitled to imputed credit for the income tax paid by the company. For corporate shareholders, the dividends received are not considered taxable income; however, the tax credits shall be included in the balance of its shareholder-imputed credit account (ICA) and will be imputed to the shareholders for future dividend distributions. Imputed tax credit does not apply to non-resident shareholders.

Starting from the year 1998, profits that are earned in a year but not distributed by 31 December of the following year are subject to 10% advance retained earnings tax, which can be claimed as a credit against the final tax liability of both resident and non-resident shareholders.

When making earning distribution for the year 1998 or each ensuing year thereafter, a profit-seeking enterprise shall use the formula listed below to compute the tax credit distributable to its shareholders along with the dividends distributed:

Imputed Tax Credit Ratio = balance of the imputed credit account / aggregate balance of the retained earnings

Amount of shareholder tax credits = amount of the net dividends* imputed tax credit ratio

There is an upper limit allowed for the imputed tax credit ratio. If the ratio calculated is higher than the upper limit, the upper limit shall be used in determining the amount of shareholder tax credits. The applicable upper limits of the imputed tax credit ratio are fixed as follows:

- (a) For an aggregate amount of undistributed surplus earnings not having been assessed with 10% profit-seeking-enterprise income tax: 33.33% if distributed retained earnings are accumulated before 2009, and 20.48% if the distributed surplus earnings are accumulated after 2010;

- (b) For an aggregate amount of undistributed surplus earnings having been assessed with a 10% profit-seeking-enterprise income tax: 48.15% if the distributed surplus earnings are accumulated before 2009, and 33.87% if the distributed surplus earnings are accumulated after 2010.
- (c) For an aggregate amount of undistributed surplus earnings partially accumulated before 2009 and partially accumulated after 2010, partially assessed and partially not assessed with a 10% profit-seeking-enterprise income tax: the sum of the amounts of deductible tax to be calculated respectively based on the applicable tax deduction ratios specified in the preceding two Items in respect of the different proportions of the aforesaid two parts of undistributed surplus earnings to the aggregate amount of the undistributed surplus earnings.

(8) Transfer Pricing Issue

The Rules Governing the Assessment of Income Tax for Profit-Seeking Enterprise on Non-Arm's Length Transfer Pricing Issues ("Transfer Pricing Guidelines" or "the Guidelines") officially took effect on 28 December 2004.

(9) Income Basic Tax (Alternative Minimum Tax, AMT)

Starting from 2006, Income Basic Tax Act is imposed. The income basic tax imposes a minimum tax on individuals and enterprises to all Taiwan resident enterprises and foreign entities with a fixed place of business or business agent in Taiwan if they earn certain income that is tax exempt or enjoy tax incentives.

(i) AMT for profit-seeking enterprises

Income subject to AMT for an enterprise = Taxable income of a Profit-seeking Enterprise + AMT add-back items

AMT = (Income subject to AMT for an enterprise – NT500,000) * 12%

(ii) AMT for individuals

Resident taxpayers are subject to AMT, including foreign nationals who stay in Taiwan for over 183 days in one calendar year.

Income subject to AMT for an individual = Taxable income of an individual + AMT add-back items.

$AMT = (\text{Income subject to AMT for an individual} - \text{NTD6 million}) \times 20\%$.

AMT add-back items include foreign-sourced income totalling NTD1 million or above and certain income exempted from regular income tax.

AMT represents floor of tax payable, if regular income tax is higher than AMT, no additional payment is required. If regular income tax is lower than AMT, then the taxpayer needs to pay additional tax for the difference between AMT and regular tax.

(10) New thin capitalization rules

In 2011, Taiwan introduced new thin capitalization rules. Deductible interest expenses on inter-company loans are capped at debt-to-equity ratio at 3. Value-Added and Non-Valued-Added Tax

(11) Capital gains from securities & futures transactions

Starting 1 January 2013, capital gain derived from disposal of Taiwanese securities and futures will be subject to Taiwan individual income tax. Such capital gains were previously exempted from income tax.

For resident individuals, a dual system for calculation of capital gain applies for 2013 and 2014. A single tax system starting in 2015. Under the dual system, capital gain can be based on actual gain or imputed gain.

For non-resident individual, only actual gain is applicable.

Calculation of taxable capital gains and tax rates are illustrated in the table below:

	Transactions in 2013-2014	Transactions after 2015
Non-resident individual	Capital gain shall be based actual gain (transaction price - original costs - necessary expenses). Capital gain generated from sales of all types of shares will be subject to 15% income tax.	Capital gain shall be based actual gain (transaction price - original costs - necessary expenses). Capital gain generated from sales of all types of shares will be subject to 15% income tax.
Resident individual	<p>Capital gain on sales of shares not listed on the TSE, OTC, or shares not issued by an emerging company will be based on the actual gain and is subject to 15% income tax.</p> <p>For income tax on capital gain on sales of shares listed on the TSE, OTC, or shares issued by an emerging company, taxpayer may elect to calculate as (1) 15% on actual capital gain or (2) 20% withholding tax on imputed capital gain.</p>	<p>Capital gain on sales of shares not listed on the TSE, OTC, or shares not issued by an emerging company will be based on the actual gain and is subject to 15% income tax.</p> <p>Capital gain on sales of shares listed on the TSE, OTC, or shares issued by an emerging company is exempt from income tax.</p>
Exception	<p>Sale of aforementioned shares should be subject to 15% actual capital gain if any of the following conditions is met:</p> <p>(1) Sale of more than 100,000 shares issued by an emerging company in the current year;</p> <p>(2) Sale of shares which are acquired prior to a company filing for IPO after January 1, 2013;</p> <p>(3) Sale of more than 10,000 shares acquired pre-IPO, through an underwriter.</p>	<p>Capital gain from sale of aforementioned shares will be subject to 15% income tax if any of the following conditions is met:</p> <p>(1) Sale of more than 100,000 shares issued by an emerging company in the current year;</p> <p>(2) Sale of shares which are acquired prior to a company filing for IPO after January 1, 2013;</p> <p>(3) Sale of more than 10,000 shares acquired pre-IPO, through an underwriter;</p> <p>(4) Annual amount for selling all types of shares exceed NTD1 billion.</p>

(12) Value-added Business Tax System

(a) Implementation of Value-added Business Tax

Taiwan began implementing a value-added business tax system on the 1 April 1986. This system is generally similar to the system used by many European countries. Except for those specially exempted according to the law, a business tax is levied at each stage of the sale of goods or services. The business tax on imported goods shall be calculated at the prescribed tax rate based on the total amount of duty-paying value plus customs duty, commodity tax, or tobacco and alcohol tax, if applicable.

(b) Value-added Business Tax Rates

Except for those to whom the zero rate applies, the business tax rate shall not be less than 5%, but no more than 10%. The applicable rate shall be determined by the Executive Yuan. Currently, the rate is 5%.

(c) Zero Rate

Zero rating applies to all exported goods and services. The amount of business tax overpaid by a business entity at the time of purchase may be refunded upon request.

(d) Exempted Goods and Services

For business entities engaged solely in the business of tax-exempt goods or services, the input tax shall not be refunded.

(e) Filing of Value-added Business Tax Return

A business entity, regardless of whether or not it has sales, shall file with the collection authority-in-charge a bimonthly tax return, and an entity to whom the zero rating applies may file a tax return on a monthly basis, for its sales amount and tax payable or tax overpaid during that period together with relevant documents within fifteen (15) days after the commencement of the subsequent period.

(f) Business Tax on Imported Goods

The amount of business tax payable on imported goods shall be levied by Customs.

5. Customs Duty

Customs duty is imposed under the Customs Law and Customs Import Tariff promulgated by the MOF. Custom duty is imposed on imported goods, mainly on price basis, and also on quantity basis.

6. Stamp Tax

The stamp tax is levied on receipts of monetary payments, deeds for sale of movable property, contractual agreements, and deeds for real estate transactions.

Table 6: Documents Subject to Stamp Tax

Taxable Documents	Rate/NTD
Receipts of monetary payments	0.4%
Deeds for the sale of movable property	NTD12
Contractors ' Agreements	0.1%
Deeds of contracts for sale, gratuitous transfers, partitions or exchanges of real estate or Dien agreement on real estate	0.1%

The taxpayer is the person who signs or issues the taxable documents. If both contracting parties keep original taxable documents, each original would be subject to stamp tax. Thus, each party would be the stamp taxpayer for the original documents kept.

7. Commodity Tax

The commodity tax is a single-stage excise tax levied on specific commodities, regardless whether those commodities are manufactured domestically or imported from abroad.

8. Securities Transaction Tax

Except for government bonds and other tax-exempted securities, all securities transactions are subject to securities transaction tax.

Table 7: Tax Rates of Securities Transaction Tax

Type	Tax Rate (Based on trading price)
Shares and shares certificates stating the rights of the shares issued by companies	0.3 % of transaction amount
Futures transactions	0.000125% – 0.6%

9. Land Tax

Land taxes include the Land Value Tax and Agricultural Land Tax. The taxpayers are:

- (1) the land title owner;
- (2) for land with an established Dien right, the Dien right assignee;
- (3) for publicly or commonly owned land, the administrator; and
- (4) for jointly owned land, the joint owners would be responsible for their respective parts.

10. Building Tax

Building and other construction, which increases the value of the buildings, are subject to building tax based on their assessed value. The taxpayers are:

- (1) the owner of the building;
- (2) for building with an established Dien right, the Dien right assignee; and
- (3) for jointly owned building, the joint owners would be responsible for their respective parts.

11. Land Increment Tax

Land value increment tax is applied to the unearned increase in the value of land, payable by the seller at the time of ownership transfer. The unearned increment is the difference between the official assessed value of the land at the time of sales and its official value of the land at the time of purchase. The taxpayers are:

- (1) the original holder of the land, for land transferred with compensation;
- (2) the acquiring holder of the land, for land transferred without compensation; and
- (3) the Dien right assignee, for land with an established Dien right.

12. The Specially Selected Goods and Services Tax Act

With effect from 1 June 2011, Taiwan implemented the Specially Selected Goods and Services Tax Act, which imposes a luxury tax on certain selected goods and services including building and lands which are sold and possessed within two years, as well as high-consumptive passenger sedans, yachts, airplanes, helicopters and ultra-light vehicles, turtle shells, hawksbill sea turtles, coral, ivory, fur and its manufactured products, furniture, membership. Tax rate for the specifically selected goods and services tax is 10%. However, if the holding period for building or lands is less than 1 year, then the tax rate shall be 15%.