

# DOING BUSINESS

IN TAIWAN



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for doing  
business

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# 1 – INTRODUCTION

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UHY is an international organisation providing accountancy, business management and consultancy services through financial business centres in around 90 countries throughout the world.

Business partners work together through the network to conduct transnational operations for clients as well as offering specialist knowledge and experience within their own national borders. Global specialists in various industry and market sectors are also available for consultation.

This detailed report providing key issues and information for investors considering business operations in Taiwan has been provided by the office of UHY representatives:

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A detailed firm profile for UHY's representation in Taiwan can be found in section 8.

Information in the following pages has been updated so that they are effective at the date shown, but inevitably they are both general and subject to change and should be used for guidance only. For specific matters, investors are strongly advised to obtain further information and take professional advice before making any decisions. This publication is current at August 2015.

We look forward to helping you do business in Taiwan.

## 2 – BUSINESS ENVIRONMENT

Taiwan is located in the East China Sea some 100 miles from the Chinese mainland. Formerly known as Formosa, its official name is the Republic of China.

The current president, Ma Ying-Jeou, has been in power since 2008.

Key factors which attract investors to do business in Taiwan include its:

- Superior geographic location
- Ranking as the world's 18th and 20<sup>th</sup>, import and export, respectively, largest trading nation
- Status as one of the world's key industry suppliers
- High-tech innovation industries
- Reputation as a research & development epicentre.

### GENERAL BACKGROUND

#### DOMESTIC MARKET

Population	± 23 million
Area	36,188 kilometres square
Civilian working population	11million

#### ECONOMY

In the last 50 years, Taiwan has transformed itself from an agrarian economy to one of the world's leading producers of mass-manufactured goods. Agriculture now accounts for just 2% of gross domestic product (GDP).

Taiwan is a member of the World Trade Organisation (WTO) and the Asia-Pacific Economic Cooperation (APEC) forum.

Taiwan's economy is highly dependent on international trade and exports.

TABLE 1

*Main trading partners*

NATIONS/AREAS	% OF 2014 TRADE (EXPORTS)
China and Hong Kong	40%
USA	11%
Europe	8%
Japan	6%
Singapore	6%
Korea	4%

#### CURRENCY

The country's local currency is the Taiwan New Dollar (TWD). In 2014, the exchange rate between the US dollar (USD) and the TWD ranged from USD 1: TWD 30 to USD 1: TWD 31.

## 3 – FOREIGN INVESTMENT

Taiwan welcomes foreign business investors, especially those with a high-tech focus.

Taiwan is strategically located at the crossroads of three leading Asian economic regions:

- North East Asia
- China
- The Association of South-east Asian Nations (ASEAN).

In terms of shipping, the average time from Taiwan to five major regional harbours (Singapore, Hong Kong, Tokyo, Shanghai and Manila) is 53 hours. The average flight time from Taiwan to seven major cities in the western Pacific is less than three hours.

Foreign direct investments (FDI) approved are as following (in US\$ million):

YEAR	TOTAL INFLOWS INTO TAIWAN	TOTAL OUTFLOWS FROM TAIWAN
2004	3,952	3,382
2005	4,228	2,447
2006	13,969	4,315
2007	15,361	6,470
2008	8,237	4,466
2009	4,798	3,006
2010	3,812	2,823
2011	4,955	3,697
2012	5,559	8,099
2013	4,933	5,232
2014	5,770	7,294
2015 01-08	2,726	8,673

There are certain benefits and tax incentives (exemptions and credits) for investors which are prescribed by related codes and laws. These are outlined below.

### INCOME TAX EXEMPTION FOR ENTERPRISES OUTSIDE TAIWAN'S TERRITORY

Enterprises outside Taiwan's territory are exempt from income tax and are not subject to withholding for the following types of Taiwan-sourced income:

- Royalties 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 – subject to advanced approval by related governing authorities
- Remuneration paid to a foreign enterprise for its technical services rendered towards construction of a factory for an important productive enterprise – subject to advanced approval by related governing authorities

- Interest derived from loans offered to Taiwan government or legal entities within Taiwan's territory by foreign government or international financial institutions for economic development
- Interest derived from financing facilities offered to a company's branch offices and other financial institutions within the territory of Taiwan by foreign financial institutions
- Interest derived from loans extended to legal entities within Taiwan's territory by foreign financial institutions for financing important economic construction projects under the approval of the Ministry of Finance
- Interest derived from favourable-interest export loans offered to or guaranteed for legal entities within Taiwan's territory by foreign governmental institutions and foreign financial institutions which are specialised in offering export loans or guarantees.

#### IMPORT TARIFF AND VAT EXEMPTIONS FOR BONDED FACTORIES

Raw materials imported by bonded factories are exempt from import tariffs and VAT. Import tariffs and VAT are levied upon any such raw materials shipped outside the bonded area.

#### INCOME TAX CREDIT FOR R&D EXPENDITURE

For an enterprise's spending in research and development (R&D), 15% of the spending is entitled to an income tax credit. The credit can be used to reduce the payable income tax of an enterprise, applying to 30% of the income tax payable in the year when the R&D expenditure was incurred, while any unused credit becomes ineffective and is not allowed for deductions in the following year.

R&D credits are required to go through advance approval from the relevant authority and have to be evidenced by the necessary supporting documents together with return filing materials. They are also subject to the Tax Authority's assessment after filings.

A branch office is not eligible for R&D credits.

#### MERGERS AND ACQUISITIONS

According to the Business Mergers and Acquisitions Act, the following situations apply in cases of mergers and acquisitions:

- In a merger or acquisition, where the newly issued voting shares issued by an acquiring entity consist of no less than 65% of the total consideration for acquiring the shares or assets of the acquired entity, the following exemptions apply:
  - Stamp duty and deed tax incurred by contract and real estate transfers are exempt
  - Security transaction tax derived from the shares exchange is exempt
  - Inventory transfer is not subject to VAT
  - Land value increment tax incurred by land deeded to the acquiring entity is taken on by the acquiring entity and payment is delayed to the next transfer
- Any unused loss carry forwards of extinguished entities are inherited by the surviving entity or the newly-established entity of a merger, subject to following limitations:
  - The surviving/newly-established entity and extinguished entities all qualify for net loss carry forward before and after the merger
  - The amount to which an extinguished entity's unused loss carry forward is inherited by the surviving/newly-established entity is subject to a ratio of issued shares held by the extinguished entity's shareholders to the total issued shares of the surviving/newly-established entity

- Exemptions or unused income tax credits of extinguished entities which are inherited by the surviving/newly-established entity are subject to following limitations:
  - The surviving/newly-established entity engaged in those extinguished entities' businesses on which exemptions are originally granted, and the exemptions are limited to the taxable income generated from those businesses
  - The extinguished entity's unused income tax credits are totally inherited by the surviving/newly-established entity, but those credits can only be deducted against income tax payable generated by segments which are descended from the extinguished entity.

## 4 – SETTING UP A BUSINESS

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### TYPES OF BUSINESS

The following main types of business entity are generally chosen in Taiwan by foreign investors:

- Subsidiaries ( Company Limited by Shares, Limited Company, Unlimited Company, Close Company, and Limited Liability Partnership)
- Branches
- Representative office.

### SUBSIDIARIES

For this type of company, the name needs to be approved and registered by the Ministry of Economic Affairs (MOEA) before the subsidiary can be formally registered.

### BRANCHES

A foreign company needs to apply to the MOEA for official recognition and establishment of a branch in Taiwan. Then, registration must be completed with local and municipal authorities.

### REPRESENTATIVE OFFICE

A representative office works for a foreign company and needs to be registered with the MOEA.

A non-Taiwan citizen can be appointed as the 'responsible person' for a Taiwan-registered company, but such a person should have a residence registered in Taiwan.

It can take up to three weeks to register a company in Taiwan. There is no minimum initial capital requirement for any kind of business entity, branch office or representative office.



## 5 – LABOUR

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The Taiwanese have a strong work ethic. A typical working week in Taiwan is 40 hours and foreign workers are expected to put in similar hours.

Most Taiwanese work a five-day week. Annual leave varies from 7–30 days and holiday entitlement depends on seniority.

Unemployment stood at about 4% in 2014.

Foreign workers can take up employment in Taiwan on a work visa (an ‘Alien Residence Certificate’ – ARC). The working conditions for foreign workers are the same as for those of Taiwan nationals.

Foreign labourers (approximately 550,000), mainly from neighbouring south-east Asian countries including China, the Philippines, Thailand and Indonesia, are legally employed in the country and contribute labour to many industries/sectors such as manufacturing, construction, nursing/caring and house-keeping.

### TAIWANESE CULTURE

The following can generally be said about Taiwanese workers:

- Most people working for international businesses in Taipei speak English
- Taiwan is a nation without restriction on religions. Taoism and Buddhism are the most prevalent religions
- Taiwanese people are well-educated on average
- Mandarin and Taiwanese are the most prevalent spoken languages
- The Chinese Lunar New Year holiday is the main holiday session, which is approximately seven days (Saturday and Sunday included) and generally falls in the second half of January or the first half of February.

### STANDARD LABOUR LAW AND LABOUR PENSION ACT

The Standard Labour Law was promulgated in 1984. Under the Law, employers are obliged to establish a Defined Benefit Pension Plan covering all employees.

According to the Law:

- A retired employee is entitled to a one-off lump sum pension payment, which is calculated on the average monthly salary of the last six months before retirement, multiplied by points based on the number of service years. An employee gains two points for one year of service for the first to the 15th year and one point for the years after, subject to an upper ceiling of a total of 45 points
- Employers are required to make a monthly contribution (based on a certain percentage of paid salaries/wages) to an independent pension fund deposited with the Bank of Taiwan or an approved financial institute
- An employee can apply for retirement having worked for the same employer continuously:
  - For more than 15 years and when reaching an age of 55
  - For more than 25 years
  - For more than 10 years and when reaching an age of 60.

The Labour Pension Act was promulgated on 1 July 2005. The Act enforces a 'Defined Contribution Pension Plan'. Under the Act:

- Employers make a monthly contribution based on at least 6% of their paid financial rewards to the accounts of individual employees deposited with the Bureau of Labour Insurance. Employees can choose to make monthly mutual contributions of up to 6% of their financial reward and are free to change their contributions at any time
- Employees can apply for a lump sum pension or for monthly pension payments, which are dependent on a certain number of years of service or reaching certain retirement ages
- The account belongs to the employee and employee's entitlement to the pension is not harmed by any employment interruption
- The Defined Contribution Pension Plan under the Labour Pension Act is not applied to non-Taiwanese citizens.

New entities established after 1 July 2005, and employees employed after 1 July 2005, are obliged to adopt a new plan (the Defined Contribution Pension Plan prescribed by the Labour Pension Act). Those employees employed before the introduction of the Labour Pension Act have to make a decision whether they will keep to an old plan (a Defined Benefit Pension Plan under the Standard Labour Law) or convert to a new plan, where any seniority accumulated before 1 July 2005 is maintained if a new plan is chosen.

#### LABOUR INSURANCE

The Labour insurance system has been in existence in Taiwan since the 1950s. The system is handled by the Bureau of Labour Insurance and is obligatory for almost all employees and employers. It is also applicable to foreign employees. The insurance is limited to the employee and additional coverage for any co-insured or dependents is not allowed. The premium is determined mainly by the basic salary/wage, pay rates and length of employment. Insurance premiums are paid on a monthly basis and contributions are made by the insured employee, the employer and the government; depending on the scope of insured items, employers are generally responsible for 70% of the premium.

The following benefits are available for insured employees:

- Medical care benefits
- Injury or sickness benefits
- Permanent disability benefit
- Survivor benefit
- Maternity benefit
- Non-voluntary unemployment benefit
- Old-Age benefit:

### NATIONAL HEALTH INSURANCE

The National Health insurance scheme came into effect in Taiwan in 1994. The scheme is handled by the Bureau of National Health Insurance and is obligatory for all Taiwanese citizens residing in Taiwan and foreigners with an ARC. Dependent relatives of an insured employee can also participate in the insurance. The insurance premium is determined mainly by the total financial reward, pay rates and the number of insured parties. The premium is paid on a monthly basis and contributions are made by the insured employee, the employer and the government; depending on the scope of insured items, employers are generally responsible for 60% of the premium. National Health insurance is obligatory regardless of whether the insured is employed or not. The insured is eligible for free or low medical therapy expenses for prescribed treatment items.

### EMPLOYEE FRINGE BENEFIT COMMITTEE

According to the Employee Welfare Fund Act, employees of a profit-seeking enterprise are obliged to organise an Employee Fringe Benefit Committee. Employers and employees are required to contribute to the fund of the committee based on:

- 1%–5% of the registered share capital
- 0.05–0.15% of monthly gross operating revenue
- 0.5% of the monthly employee payroll
- 20–40% of the revenue from sales of scrapped inventory or merchandise from manufacturing/production, or inventory stocks.

The fund is reserved for fringe benefit expenditures. The Employee Fringe Benefit Committee is defined as an organisation for educational, cultural, public welfare or charitable purposes, and is subject to income tax filing. The committee is income tax exempt if its total expenditure, spent exclusively on fringe benefits, exceeds 60% of its total contribution income.

## 6 – TAXATION

### BUSINESS TAXES

#### PROFIT-SEEKING ENTERPRISE INCOME TAX

TABLE 2

*Profit-seeking enterprise income tax rates from 2010 onwards*

RANGE	TAXABLE INCOME	RATE
1	Below TWD 120,000	-
2	Over TWD 120,000	17%

Note: The income tax rates listed above are independent from the 10% surtax (described below).

#### 10% SURTAX FOR UNDISTRIBUTED EARNINGS

A 10% income tax is imposed on undistributed net earnings generated in every year since 1998. Paid income taxes (including both 17%-rated and 10%-rated ones) are accumulated in an Imputation Credit Account (ICA). The 'Credit' is attributed to shareholders upon earnings distribution, and half of the amount of the credit can be used to offset the respective shareholders' individual consolidated payable income tax.

The 10% income tax and ICA are applicable to all profit-seeking enterprises except for branches, partnerships, proprietorships, not-for-profit organisations and certain other entities restricted from earnings distribution by related statutes (for example, government-owned entities).

From 1 January 2016, an individual or a profit-seeking enterprise who has any income derived from transactions of house, the share of land associated with the house or any land which can be issued a construction permit (hereinafter referred to as the "house and land") which comply with any one of the following conditions, shall be subject to assessment of income tax:

1. The transferred house and land are acquired on or after the following day of 1 January 2014, and have been held for a period of no more than 2 years
2. The transferred house and land are acquired on or after January 1, 2016.

Only the paid 10% income tax can be attributed to non-Taiwanese resident shareholders or to entity shareholders who have no fixed operating premise located in Taiwan, by means of offsetting the withholding upon remitting earnings distributions.

## TRANSFER PRICING

In cases where a profit-seeking enterprise has an affiliated relationship with, or is directly or indirectly owned or controlled by another enterprise within or outside the Republic of China (ROC) territory, and is found to have conducted transactions between the parties which do not conform with regular business practices in respect of income, cost, expenses and income/loss allocation for the purpose of avoiding income tax obligations, the taxation body can apply for Ministry of Finance (MOF) approval to effect adjustments to its taxable income.

The statute governing transfer pricing stipulates:

- Transactions with related parties are defined by the statute as ‘controlled transactions’, which are subject to evaluation and income tax adjustments
- Usages and transfers of tangible and intangible assets, service provisions and financings are regulated transactions
- General procedures and principles for the evaluation of transactions include:
  - Selecting ‘comparable transactions’, which are uncontrolled transactions with non-related parties and whose general terms are equivalent to or similar to those of the controlled transactions. Results from comparable transactions (for example, the gross margin rates) are factors when applying many ‘pricing methods’
  - ‘Pricing methods’ pertaining to different types of transactions are prescribed by the statute for deciding ‘arm’s length transaction results’, based on the results to evaluate and whether or not controlled transactions conform to regular business practices
  - A determination is made regarding best pricing methods for different types of transaction based on the ‘degree of comparability’ when comparing transactions
  - Best pricing methods are applied on controlled transactions on an individual transaction basis
  - Comparable transactions are selected from the current year, while selecting from a preceding years’ average is allowed under certain conditions
  - ‘Ranges’ for ‘arm’s length transaction results’ are figured out by applying one best pricing method on more than two comparable transactions
  - Adjustments are required when results of controlled transactions are outside the range and when adjustments increase the income tax payable
- Profit-seeking enterprises engaged in controlled transactions amounting to over TWD 1,000 million can apply to the tax authority for an ‘advance pricing agreement’, which settles ‘pricing methods’ for figuring out ‘arm’s length transaction results’ for application of up to five years
- Information about related parties and related-party transactions must be disclosed in income tax return filings
- Enterprises engaged in ‘controlled transactions’ on a yearly basis must prepare the following documentation which has to be submitted upon request by the tax authority:
  - General description about the enterprise in the filings, including history, ordinary course of business activity and an analysis of factors with regards to the economy, legality and other items which affect transfer pricing
  - Chart showing the structure of the holding, related parties and affiliates for both domestic and foreign arms, listings of directors, supervisors and managers and any changes from the preceding year
  - Summary of controlled transactions, including types of transaction, dates, flows, quantities, prices, terms, objects and the usage for the objects transacted
  - A ‘Transfer Pricing Report’ comprises at least the following:

- An analysis of the economy and industry
  - An analysis of the risks and functions of parties participating in the controlled transactions
  - The result of applying transaction procedures and principles referred to above
  - Details of unrelated parties selected for comparing purposes and results of comparable transactions with those unrelated parties undertaken in an arm's length manner
  - An analysis for the 'degree of comparability' between the controlled transactions and the comparable transactions
  - The best pricing methods which have been adopted and the reasons for adopting them, as well as the reasons for not adopting other prescribed pricing methods
  - The pricing policies and other useful information concerning the parties participating in the controlled transactions
  - The result of an evaluation by applying best pricing methods
- Other documents which support that the transactions of the filing enterprise conform with regular business practices.

#### DEEMED PROFIT

A profit-seeking enterprise whose head office is located outside the ROC territory and which runs a business in Taiwan can apply with to the Ministry of Finance (MOF) for a 'deemed profit' evaluation, subject to two conditions:

- The enterprise runs a business of international transportation, construction contracting, machinery/equipment leasing and technical assistance in Taiwan
- The allocation of costs and expenses of the business in Taiwan is difficult to calculate.

Regardless of whether a branch office or agent has been established in Taiwan or not, any 'deemed profit' is calculated as follows:

- The enterprise's taxable income equates to 10% of its gross operating revenue for an international transportation business
- The enterprise's taxable income equates to 15% of its gross operating revenue for a construction contracting, machinery/equipment leasing and technical assistance business.

Accordingly, loss carry forward is not applicable if 'deemed profit' applied.

#### ENTERPRISES' TAIWAN SOURCED INCOME

The income earned both within and outside Taiwan's territory by a profit-seeking enterprise, whose head office is located in Taiwan, is subject to Taiwan's profit-seeking enterprise income tax.

Any withholdings or income tax imposed on income originated in other nations can be used to deduct income tax payable in Taiwan, if the following two conditions are met:

- Paid income tax must be supported by documentary evidence issued by other national authorities and be attested to by a Taiwanese embassy, consulate or Taiwanese government authorised representative
- The deduction is subject to an upper limit on the increased Taiwan income tax payable by adding income earned abroad.

The income earned within Taiwan's territory by a branch office or representative office is subject to Taiwan profit-seeking enterprise income tax; income of a head office located outside Taiwan is not considered Taiwan sourced income.

#### WITHHOLDING TAX

For non-Taiwanese residents who stay in Taiwan for less than 183 days cumulatively in one year, or profit-seeking enterprises that have no fixed operating premises located in Taiwan, withholding rates are as follows:

- 20% for income such as commissions, rentals, royalties and service fees earned in Taiwan
- 15% for interest on short-term bank loans, corporate bonds, government bonds and securities issued, based on the Financial Asset Securitisation Act and Real Estate Securitisation Act. The withholding rate is 20% for other kinds of interest
- 20% for non-Taiwanese residents who have dividend income from Taiwan-registered profit-seeking enterprises, partnerships and sole-proprietorships
- 20% for dividends distributed from Taiwan-registered profit-seeking enterprises to entities that have no fixed operation premises located in Taiwan
- 18% for non-Taiwanese residents who have salary income from Taiwan
- For dividends, interest and royalty incomes, withholding rates are lower and range from 5–15% for those nations with which Taiwan has signed a tax treaty.

#### LOSS CARRY FORWARD

Net loss can be carried forward for ten consecutive years following the year of losses; however, no carry backward is allowed. Profit-seeking enterprises are eligible for net loss carry forward in compliance with the following:

- Taxpayers must keep complete sets of accounting records and vouchers as required under the related regulations
- Taxpayers are eligible for using the 'Blue Return Filing Form', which must be ratified by the tax authority; the form is used in the years of losses and offsets
- Income tax filings for the years of losses and offsets are all certified by a Certified Public Accountant (CPA).

#### NON-DEDUCTIBLES AND EXEMPTIONS FOR PROFIT-SEEKING ENTERPRISE INCOME TAX FILING PURPOSES

There are special rules regarding a branch of an overseas head office, which are as follows:

- A branch of an overseas head office can recognise either the interest on loans due to the overseas head office or the management fee allocation, but is not allowed to recognise both
- Recognition of interest on loans due to the overseas head office should be approved by the relevant authority in advance
- Recognition of management fee allocation from an overseas head office must be supported by a report detailing the calculation, certified by a CPA in the location of the head office and attested to by a Taiwan embassy, consulate or Taiwanese government authorised representative.

Other non-deductibles and exemptions include:

- Interest on loans due to non-financial institutes for the part calculated on interest rates in excess of the maximum rate prescribed by the Authority is not deductible

- Allowances and returns, operating costs and expenses and non-operating losses are not deductible if not supported by the required vouchers, documents or other evidential documentation
- Certain expenses and losses are subject to a limitation prescribed by related regulations; these include entertainment, depreciation of luxury sedans, fringe benefit expenditures, donations, meal allowances, bad debt provisions, etc.
- Valuation provisions and treatments required by financial reporting standards which are unrealised within the income tax perspective, such as exchange differences, investment gain or loss of equity method, asset impairment loss provision, value decline provision on financial instruments, pension provision, etc, are deferred for income tax purposes until realised
- Exemptions stipulated by the Tax Laws or related regulations, such as gains or losses incurred by sale of land and futures, earnings distribution from domestic investees etc., are exempted from income tax
- Fines, penalties, other expenditures unrelated to the taxpayers' ordinary course of business, are non-deductible.

Note: There are a variety of tax adjustments, stipulated in a number of sources, including income tax law and related regulations, rulings, statutes, implementation guidance, etc; these adjustments are not limited to the ones enumerated above, which are listed only for general reference purposes.

#### VAT (VALUE ADDED TAX)

For the majority of businesses, the standard VAT is 5%.

The VAT rate is 0% for exports or goods sold to a 'bounded area' or to a Science-based Industry Park and for international transportation.

Certain transactions are exempt from VAT, such as the sale of land, the sale of raw agricultural harvests, cattle and fish, and activities for public welfare, culture, education and charity, etc.

The VAT rate is 1% for premium income from re-insurance..

VAT rates are 15% and 25% for certain entertainment businesses.

Profit-seeking enterprises applicable for a 0% VAT rate can file a VAT-in return. VAT exempt profit-seeking enterprises are obliged to calculate a 'non-deductible ratio' and to compensate the government for any over-deducted VAT-in amounts.

### OTHER APPLICABLE TAXES FOR BUSINESS

#### STAMP DUTY

Stamp duty is levied on certain types of agreements, receipts, vouchers and documents with rates ranging from 0.1–0.4%. A fixed duty of TWD 12 per contract is levied on normal non-real estate transactions.



### DEED TAX

Deed tax is levied on real estate transactions (land is excluded) involving a sale, creation of a lien, exchange, bestowal, partition, or acquisition of ownership by virtue of possession. Deed tax rates range from 2% to 6% of the contract amount.

### COMMODITY TAX

Commodity tax is levied on the manufacturers and importers of certain types of goods including cement, rubber tires, beverages, flat glass, fuel and gas, electronic appliances and vehicles or motorcycles. Commodity taxes for cement and fuel and gas are levied based on the quantity; for the other items, the tax is levied based on wholesale prices.

### LAND TAX

Taxes related to land are regulated by the Land Tax Act.

Any gain from the sale of land is exempt from income tax, but is subject to a 'Land Value Increment Tax':

- This tax is progressively imposed in value increments, which are defined as the difference between the decreed land value at the time of sale and its original decreed land value or the previous transfer value, with the following rates:
  - 20% for a total value increment less than 100%
  - 30% for a total value increment over 100% and less than 200%
  - 40% for a total value increment over 200%
- For land that has been held over a certain period of time before transfer, its land value increment tax on the portion exceeding the first value as listed above, shall be reduced by certain percentages as follows:
  - A reduction of 20% for land held for more than 20 years
  - A reduction of 30% for land held for more than 30 years
  - A reduction of 40% for land held for more than 40 years.

For the land value tax:

- The land value tax rate on own-use residential land is in generally 0.2%
- The land value tax rate is 1% for land earmarked for industry, mining, private parks, zoos, sports stadium, temples, churches or government-designated scenic spots or historical sites
- For other land, land value tax rates range progressively from 1–5.5%.

### TRANSACTION TAX

Sales of marketable securities and futures are subject to transaction tax.

Transaction tax rates are as follows:

- 0.3% for exchanging shares or share certificates embodying the right to shares issued by companies
- 0.1% for trading corporate bonds or other government-approved securities
  - These are exempted from this tax for seven years from 1 January 2010

Note: There are various taxes, duties and tariffs in Taiwan and they are not limited to the ones outlined above, where descriptions are provided only for general reference purposes.

Stamp duty, deed taxes, land related taxes and security transaction taxes also apply to individuals.

### SPECIFICALLY SELECTED GOODS AND SERVICES TAX ACT

A 10–15% specifically selected goods and services tax shall be imposed on the sale, manufacture and import of specifically selected goods, or the sale of specifically selected services within the territory of the Republic of China, as listed below:

1. Buildings and lands – any unit of a building and the share of land associated with the unit, or any urban land for which a construction permit may lawfully be issued, that has been held for a period of no more than 2 years. Those which meet provisions of Article 5 are not classified as ‘specifically selected goods’  
The Specifically Selected Goods and Services Tax Act shall cease to apply on sale contract to sell Buildings and lands, effective from 1 January 2016.
2. Passenger cars – any passenger car that, including the driver’s seat, has nine seats or less and a selling price or taxable value of not less than TWD 3 million
3. Yachts – any yacht with a selling price or taxable value of not less than TWD 3 million
4. Airplanes, helicopters, and ultra-light vehicles – any airplane, helicopter, or ultra-light vehicle with a selling price or taxable value of not less than TWD 3 million
5. Turtle shells, hawksbill, coral, ivory, furs, and their products – any of the aforesaid items with a selling price or taxable value of not less than TWD 500,000, excluding those that are not protected species under the Wildlife Conservation Act, or products made from them
6. Furniture – any item of furniture with a selling price or taxable value of not less than TWD 500,000.

## TAXES ON INDIVIDUALS

### INCOME TAX

TABLE 3

*Individual consolidated income tax rates in 2015*

RANGE	TAXABLE INCOME BRACKETS (TWD)	RATES
1	0 – 520,000	5%
2	520,001–1,170,000	12%
3	1,170,001–2,350,000	20%
4	2,350,001–4,400,000	30%
5	4,400,001–10,000,000	40%
6	Over 10,000,001	45%

Note: Income brackets are subject to adjustment on a yearly basis.

### NON-TAIWANESE RESIDENT’S TAIWAN SOURCED INCOME

Any non-Taiwanese citizen who stays in Taiwan for 183 days cumulatively within one year is deemed a Taiwanese resident, and is required to file an individual consolidated income tax return for Taiwan sourced income in compliance with the same rule as applied to Taiwanese citizens.

Any individual consolidated income tax for Taiwan sourced income earned by a non-Taiwanese resident staying in Taiwan for less than 183 days cumulatively within one year, is collected by means of withholdings.

Any reward paid by an employer outside Taiwanese territory to a non-Taiwanese resident staying in Taiwan for less than 90 days cumulatively within one year (where services provided in Taiwan are not classified as Taiwan sourced income), is not subject to individual consolidated income tax.

#### OTHER INDIVIDUAL APPLICABLE TAXES

- Estate tax is a flat rate of 10% after deductions and an exemption of TWD 12,000,000 prescribed by the Estate and Gift Tax Act
- Gift tax is a flat rate of 10% after deductions and an exemption of TWD 2,200,000 prescribed by the Estate and Gift Tax Act.

Note: There are various taxes, duties and tariffs in Taiwan and these are not limited to the ones outlined above.

### TAX TREATIES AND EXEMPTIONS

#### TREATY NETWORK

As of 28 February 2015, the ROC has concluded tax treaties with 28 countries. 28 income tax treaties have been concluded, including treaties with Australia, Gambia, Indonesia, Macedonia, Malaysia, New Zealand, Netherlands, Singapore, South Africa, Vietnam, Swaziland, UK, Senegal, Sweden, Belgium, France Hungary, India, Israel, Paraguay, Slovakia, Switzerland, Denmark, Germany, Kiribati and Thailand, which have been signed and are now effective.

There are also 14 international transportation income tax agreements have been signed and are now effective with Canada, the European Union, Germany, Israel, Japan, Korea, Luxembourg, Netherlands, Norway, Thailand, Sweden, the United States and Macau.

Please refer to the section on Withholding Tax for withholding rates on various types of income. With respect to dividends, interest and royalties, reduced withholding tax rates ranging from 5–15% are provided for by treaties.

Taiwan has also concluded the Cross-Straits Economic Cooperation Framework Agreement (ECFA) with China in 2010. In August 2015, Taiwan and China signed the tax treaty agreement, which is subject to Taiwan Legislative Yuan's approval and expected to be effective on 1 January 2016.

#### ALTERNATIVE MINIMUM INCOME TAX SYSTEM

For the purpose of eliminating tax base erosion and disparity among taxpayers resulting from credits, exemptions and incentives being granted exclusively to enterprises and shareholders within certain industries, a 'Basic Income Tax Act' has been brought into effect since 2006.

The Basic Income Tax Act stipulates that:

- 'Basic income' is calculated by adding back in certain exemptions, as prescribed by the Act, to the taxable income calculated in compliance with the existing Income Tax Act, related regulations and statutes. For individual taxpayers, income derived from sources outside Taiwan was excluded from taxable income according to the existing Income Tax Act, but is now to be added back into calculations for the 'basic income' since 2013

- Basic income taxes are calculated by imposing 12% on the 'basic Income', after subtracting an exemption of TWD 500,000 for enterprise taxpayers and by imposing 20% on the 'basic income' after subtracting an exemption of TWD 6,700,000 for individual taxpayers
- Taxpayers are obliged to pay basic income taxes if these are higher than the 'regular income tax payable' based on calculations using the existing Income Tax Act, related regulations and statutes. Any difference between basic income taxes and the regular income tax payable cannot be deducted by income tax credit.

#### ACT GOVERNING RELATIONS BETWEEN PEOPLES OF THE TAIWAN AREA AND OF THE MAINLAND AREA

This Act is mainly applied to regulate relations between the people or entities of the Taiwan Area and the people or entities of the Mainland China Area in respect of business transactions, investments, financings, agencies, cooperation, negotiations, attestations and notaries, transportation, employment, migration, residences, inheritance, civil rights, etc; and any arising legal issues relating to such afore-mentioned interactions.

Any individual, juristic person, organisation, or other institution of the Taiwan Area having income derived from sources in the Mainland Area shall pay income tax thereon together with the income derived from sources in the Taiwan Area; provided, however, that the amount of the income tax already paid in the Mainland Area may be deducted against the income tax payable in the Taiwan Area. The total amount to be deducted may not exceed the increment of the computed income tax payable, after including the income derived from sources in the Mainland Area, at the applicable income tax rate of the Taiwan Area.

## 7 – ACCOUNTING & REPORTING

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Financial statements must be reported in the local currency (TWD) and prepared in accordance with Generally Accepted Accounting Principles (GAAP).

The annual financial statements of any company with a paid-in capital of more than TWD 30,000,000 or bank facilities of more than TWD 30,000,000 must be audited by a certified public accountant (CPA).

Financial reports must be approved in a regular annual shareholders' meeting to be held within 6 months of the end of the accounting period.

GAAP incorporates a number of requirements, which centre on the 'Statements of Financial Accounting Standards' (SFAS) and include rulings, imperatives and related guidance/statutes/regulations/acts.

The SFAS are set out by the 'Accounting Research and Development Foundation' and are constantly undergoing amendments to conform to 'International Financial Reporting Standards' (IFRS). IFRS applies for those transactions whose accounting treatments have not been regulated by GAAP and US GAAP applies where there is no applicable IFRS.

In Taiwan, the authorities have announced the enforced adoption of IFRS for listed companies starting from 2013, for public companies starting from 2015, and for non-listed and non-public companies starting in 2016.

### UNIQUE REGULATIONS AND PRACTICES IN TAIWAN

#### LEGAL RESERVE

Taiwan Company Law stipulates that net after-tax earnings of a company should be:

- Firstly offset an accumulated deficit, if any
- For the remaining balance after offsetting a deficit, if any, 10% should be set aside as a 'legal reserve' (an account under the shareholders' equity) to be resolved by the regular shareholders' meeting.

However, Company Law exempts a company from the obligation when its legal reserve reaches the total issued share capital.

A legal reserve is 'earning' by nature, but is restricted in its distribution except for certain situations as prescribed by the Company Law:

- The legal reserve can be used to offset an 'accumulated deficit' upon a shareholders' meeting resolution
- The legal reserve of a company can be used to recapitalise (a transfer from the legal reserve to the 'issued share capital' by issuing stock dividends) or to declare cash dividends. Where legal reserve is distributed by issuing new shares or by cash, only the portion of legal reserve which exceeds 25 percent of the paid-in capital may be distributed.

### CAPITAL SURPLUS

Under Company Law and Statements of Financial Accounting Standards, the following items are accounted for as 'capital surplus' (an account under the shareholders' equity):

- Paid-in capital in excess of par value
- Donated assets
- Gain from treasury stock transactions
- The fair value of share-based compensation
- Correspondent recognition of capital surplus of an equity method accounted investee
- Surplus of the acquired net asset in excess of the par value of shares issued in exchange during a merger.

Capital surplus is not 'earning' in its nature. Company Law and related regulations stipulate that, upon an annual regular shareholders' meeting resolution, any capital surplus derived from 'paid-in capital in excess of par value' and 'donated assets' can be used to recapitalize or for cash dividends.

### EMPLOYEE BONUS

A fixed amount or ratio of profit of the current year distributable as employees' compensation shall be definitely specified in the Articles of Incorporation. However, the company's accumulated losses shall have been covered. A company may, by a resolution adopted by a majority vote at a meeting of board of directors attended by two-thirds of the total number of directors, have the profit distributable as employees' compensation distributed in the form of shares or in cash; and in addition thereto a report of such distribution shall be submitted to the shareholders' meeting. Qualification requirements of employees, including the employees of subsidiaries of the company meeting certain specific requirements, entitled to receive shares or cash, may be specified in the Articles of Incorporation. For accounting treatment purposes in Taiwan, any compensation to employees is charged to profit and loss accounts.

### ASSETS REVALUATION

Government allows profit-seeking enterprises to apply for a revaluation of their fixed assets, deletion assets and intangible assets when the price indexes become more than 125% of the ones which prevailed at assets procurements or at a previous revaluation. Revaluation increments are recognised as an 'unrealised revaluation increment' under the 'owner equity' section of the balance sheet.

Note: There are numerous unique practices pertaining to the business environment in Taiwan which are not limited to the main differences listed above and for general reference purposes only.

## 8 – UHY REPRESENTATION IN TAIWAN

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# UHY L&C COMPANY, CPAS TAIWAN



## CONTACT DETAILS

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www.uhy-taiwan.com.tw

## CONTACTS

Liaison contact: Lawrence Lin  
Position: Chief Executive Partner  
Email: lawrencelin@uhy-taiwan.com.tw

## SOCIAL MEDIA CONNECTIONS

- Facebook: [www.facebook.com/uhytaiwan](http://www.facebook.com/uhytaiwan)

Year established: 1990  
Number of partners: 5  
Total staff: 29

## ABOUT US

UHY L&C Company's commitments in providing professional services are high quality, comprehensiveness, and efficiency.

## BRIEF DESCRIPTION OF FIRM

UHY L&C Company is an independent accounting and consulting firm with approximately 29 partners and staff. We provide a wide range of accounting, tax and business advisory services to clients. The company has established specialties in many fields, as described below.

## SERVICE AREAS

Financial statements audit and review  
Income tax returns certification (for both profit-seeking enterprises and not-for-profit organisations)  
Internal control examination  
Initial public offering  
Income tax petition and litigation support service  
Investment application and business registration service  
Offshore investment registration and filing compliance  
Company secretarial services and tax guarantor service  
Dissolution and liquidation filings  
Mergers and acquisitions  
Accounting, bookkeeping and VAT filing  
Corporate outsourcing services (income tax, payroll)  
Commercial laws and regulations-related general consultancy  
Independent director of the boards of public companies

## SPECIALIST SERVICE AREAS

Sarbanes-Oxley Act Section 404 compliance services  
Government fund regulations and laws compliance service



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# UHY L&C COMPANY, CPAS TAIWAN



## PRINCIPAL OPERATING SECTORS

Biotechnology  
Building Products  
Distributors  
Food & beverages manufacturing  
Retail  
Trading Companies  
Not on the list

## LANGUAGES

English, Chinese (Mandarin and Taiwanese).

## CURRENT PRINCIPAL CLIENTS

I-Mei Foods Group  
Shan Yuan Co., Ltd  
Arima Group  
New Best Industrial Co Ltd  
O2Micro Taiwan (a subsidiary of a US NASDAQ listed company)  
Photronics DNP Mask Corp (a subsidiary of a US NASDAQ listed company)  
San Lien Technology Group  
Sanyo Pottery & Porcelain Industry Co Ltd

## OTHER COUNTRIES IN UHY CURRENTLY WORKING WITH, OR HAVE WORKED WITH IN THE PAST

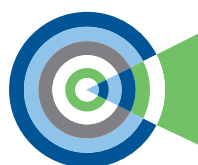
China (including Hong Kong)

## BRIEF HISTORY OF FIRM

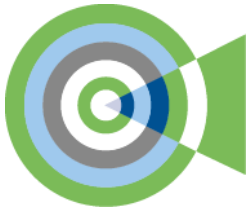
UHY L&C Company was established in 1990, when there were only two partners in the practice. As of October 1st, 2015, the Company has 5 partners and 24 professionals.

The company has developed into a small-to-medium sized practice with a highly versatile professional team specialising in a variety of local and transnational services. The company upholds value centred on high quality and services, commits itself to independence and integrity, and appreciates conservatism and stability.

The company is a member firm of UHY. The company is currently engaged with transnational referrals, not only limited to referrals within the UHY network but also including self-acquired ones with principal auditing firms of the Big 4 abroad. The company has developed a reputation for servicing international business through continuing involvement in transnational engagements and through support from across UHY.



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## LET US HELP YOU ACHIEVE FURTHER BUSINESS SUCCESS

To find out how UHY can assist your business, contact any of our member firms. You can visit us online at [www.uhy.com](http://www.uhy.com) to find contact details for all of our offices, or email us at [info@uhy.com](mailto:info@uhy.com) for further information.

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