

Doing business in Taiwan

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pwc

資誠

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The information in this guide is as of December 2019. Subsequent developments are not included.

This guide does not attempt to cover every issue nor does it cover specific tax and regulatory issues relating to particular industries/sectors that might impact you when doing business in Taiwan. It merely seeks to answer generally the questions that commonly arise. You should always seek independent professional advice as the guide has been prepared for general guidance on matters of interest only.

Chairman's welcome

I'm pleased to present the new edition of PwC's popular publication, *Doing business in Taiwan*, which provides insight into the key aspects of undertaking business and investing in Taiwan.

Centrally located in the Asia-Pacific, Taiwan is one of the most competitive places in the region for doing business, as consistently confirmed by various global rankings, and an important trade and investment gateway to China and the fast-growing markets of South and Southeast Asia.

Whether it's in terms of language, geography or culture, Taiwan's proximity to the China market is indispensable. Its other advantages, such as the ability to innovate, manufacturing strength, and the integration of Taiwanese businesses into Asia's supply chains, lead many foreign firms to choose Taiwan as their regional base or hub.

Investors who come to Taiwan can benefit from a well-established network of industrial clusters and special zones; a high-quality labour force; a comprehensive infrastructure network; a sound legal framework with strong intellectual property protection; and a business-friendly tax system.

Moreover, Taiwan has a rich and varied culture, and a hospitable living environment that foreign expatriates find safe, comfortable and welcoming. The ongoing easing of employment regulations for foreigners should help to further attract more overseas talent to come here to work and live.

The government also continues to push ahead with deregulation and other initiatives in an effort to boost inward direct investment. For instance, the various agencies that deal with investment matters have been brought together under a new umbrella body, InvesTaiwan, to better support and facilitate the overall investment process.

This guide seeks to answer common questions about the practicalities of doing business in the Taiwan market, from establishing a legal entity to employment matters, as well as compliance with accounting and tax requirements. It serves as a good starting point for businesses and investors making their first venture into Taiwan, and also is a useful resource for those already operating here.

Should you need more information or have any questions, our advisors would be happy to assist you in person at any time. PwC has long been advising international companies and investors on the formalities and complexities of setting up and doing business in Taiwan. We have 3,000 experienced professionals in six offices who can help you to successfully navigate the key issues.

On behalf of PwC Taiwan, I hope that you will find this guide useful and would like to wish you every success in your endeavours in Taiwan.



Joseph Chou
Chairman, PwC Taiwan



Chapter 1

Business environment

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Taiwan, formally known as the Republic of China, is an important hub for doing business in the Asia Pacific region. Strategically located between the manufacturing powerhouses of Northeast Asia and the dynamic developing economies in South-east Asia, it is a highly attractive market for trade and investment. This chapter provides a general introduction to Taiwan's business environment.

Land, people and language

Taiwan is an island in the western Pacific Ocean in East Asia, situated 180 km off the southeast coast of China and midway between Japan to the north and the Philippines to the south. It has a land area of about 36,000 km², which is similar in size to the Netherlands. The capital and largest city is Taipei in the northern part of the island.

Home to 23.6 million people, Taiwan is one of the top twenty most densely populated territories in the world with 652 persons per square kilometre. A diverse range of peoples and ethnic groups make up Taiwan's society, from aboriginals and Han Chinese to the recent new immigrants from Southeast Asian countries and other regions.

Mandarin Chinese is the main language used in Taiwan. Additionally, various ethnic groups use Taiwanese Hokkien, Hakka or one of 16 official indigenous languages in everyday speech. The general level of English language proficiency is low, but the government plans to improve this by turning Taiwan into a bilingual nation by 2030.

Historical background

Up until the 16th century, Taiwan was a remote island, relatively unknown, inhabited mostly by aborigines. Portuguese sailors first sighted the island in the 1540s and named it Ilha Formosa (beautiful island). Dutch and Spanish explorers followed in the early 1600s and established the first trading posts on the island, so beginning a period of European struggle for colonial rule.

The Dutch took control over Taiwan in 1642, but were evicted after twenty years by the Chinese rebel Koxinga, who used the island as a military base to resist the new Manchurian Qing regime in China. Large numbers of Han Chinese settlers, mainly from southeastern China, also started to migrate to Taiwan in the 17th century, and the influx continued unabated up to the late 1800s.

Taiwan was eventually conquered by the Qing Dynasty in 1683 and became part of its empire for the next 200 years. The island was governed as a prefecture of Fujian province until 1887 and then as a province itself. Qing rule over Taiwan ended in 1895 when, as a result of defeat in the First Sino-Japanese War, it was ceded to Japan in perpetuity under the Treaty of Shimonoseki.

Taiwan was subsequently ruled as a Japanese colony up until the end of World War II, when it was turned over to the Republic of China (ROC) government, led by the Kuomintang (KMT) party, in Nanjing, China. Four years later, in 1949, the KMT was defeated by the Communists in a civil war, and fled, along with two million refugees, to Taiwan and relocated its ROC regime to Taipei.

For fifty years thereafter, the KMT monopolised political power and enforced authoritarian rule in Taiwan. Economically, the island experienced rapid industrial development during this period to become an exporting powerhouse. Moreover, following a series of political and constitutional reforms in the late 1980s and 1990s, Taiwan has developed into a fully representative democracy.

Government and political structure

Taiwan has a semi-presidential political system, with national and local elections held every four years. The central government comprises the Office of the President and five administrative branches — the Executive, Legislative, Judicial, Examination and Control Yuans — in order to ensure a balanced distribution of political power.

The President is the head of state, and is directly elected every four years for up to two terms. He or she has the right to appoint a Premier to lead the Executive Yuan (Cabinet), which is the main policy-making arm of the central government. The Cabinet is responsible to the 113-seat Legislative Yuan (parliament), which is the sole law-making body. Each parliament serves a four-year term.

The Democratic Progressive Party (DPP) and the KMT are the dominant political parties in Taiwan; there are also a number of smaller parties. The DPP, which previously governed Taiwan in 2000-2008, returned to power in May 2016, following a general election in which it gained control of both the presidency and parliament. The next national elections in Taiwan will be held in January 2020.

Taiwan-China relations

Taiwan's relationship with China is complex. The two sides have been ruled separately since 1949, but China continues to claim the island as part of its sovereign territory, to be reunified by force if necessary. While relations across the Taiwan Strait have improved since 1987, bringing both sides closer economically, tensions occasionally still come to the fore and pose a political risk for companies doing business with and in Taiwan.

Few countries recognise the Republic of China (Taiwan) as an independent country because of diplomatic pressure from the People's Republic of China. Taiwan has formal diplomatic ties with just 15 small nation states, mainly in the South Pacific, Africa and Latin America. Even so, it still enjoys substantive (albeit unofficial) relations with major non-diplomatic allies such as the US and Japan, most of which maintain offices in Taipei.

While the former ruling KMT had made improving relations with China a priority, the DPP regime is more wary of its Communist neighbour. Tensions have risen since 2016 due to its refusal to accept Beijing's "one-China" principle for talks, which led China to suspend official bilateral contacts and to intensify its efforts to pressure Taiwan. The future direction of cross-Strait relations is uncertain and will be influenced by the results of the 2020 polls.

Macroeconomic profile

Despite its diplomatic isolation, Taiwan punches above its weight in the global economy thanks to its manufacturing and export prowess, especially in high-tech industries. It currently has the 21st biggest economy in the world, and ranks the 18th largest goods exporter globally. Indicative of its developed and open economy, Taiwan scores highly in several international rankings measuring competitiveness and the ease of doing business.

Taiwan has transformed since the 1950s from an agriculture-based economy to an advanced one driven by technology- and knowledge-intensive industries — underpinned by a well-developed network of industrial clusters and free trade zones. Small- and medium-sized enterprises continue to be the engine room of the economy, and play a critical role in upstream value chains supporting the production and exports of larger companies.

Besides the technology industry, which is the key mainstay of Taiwan's economy and an integral part of the global electronics supply chain, other major industries in Taiwan include banking and insurance, chemicals, machinery, metals, plastics and textiles. Also, the government is encouraging the development of a number of target industries, as detailed below, which are expected to become leading growth sectors for Taiwan in the future.

This initiative is part of wider government efforts to accelerate the transformation and upgrade of Taiwan's industrial base and add new momentum to economic growth. The focus is on moving up the innovation chain, by gearing the economy toward high-value-added, service- and solutions-oriented business models. The national economic and industrial development agenda of the current Taiwan government has three main components:

The '5+2' Innovation Industries Plan prioritises five areas — an Asian Silicon Valley initiative to foster innovation and entrepreneurship, national defence, biomedicine, green energy and smart machinery — plus new agriculture and the circular economy, and other key sectors like advanced semiconductors and strategic services. Central to the Asian Silicon Valley plan are new emerging technologies such as IoT, Cloud, Big Data and AI.

The Forward-looking Infrastructure Development Program is designed to address Taiwan's long-term infrastructure needs. Running from September 2017 to August 2021, the NT\$420bn (US\$13.9bn) initiative covers eight categories: transport projects; aquatic environments; green energy infrastructure; digital infrastructure (under the DIGI+ plan); urban and rural projects; child care facilities; food safety; and human resources.

The New Southbound Policy is a major plank of Taiwan's external economic strategy that calls for developing comprehensive and mutually beneficial relationships with countries in the Association of Southeast Asian Nations (ASEAN) and South Asia (including India), as well as with Australia and New Zealand. Its aim is to pursue bilateral exchanges and cooperation in trade and investment, talent, resource sharing and intra-regional connectivity.

Figure 1: Taiwan's economy by the numbers

Key economic indicators	2000	2005	2010	2014	2015	2016	2017	2018
Real GDP growth rate (%)	6.3	5.4	10.3	4.7	1.5	2.2	3.3	2.8
GDP (current US\$ billion)	330.7	374.0	444.2	535.3	534.5	543.0	590.8	608.2
Per capita GDP (current US\$)	14,908	16,456	19,197	22,874	22,780	23,091	25,080	25,792
Total exports (US\$ billion)	151.9	199.8	277.4	319.4	284.4	279.2	315.5	334.0
Total imports (US\$ billion)	140.7	185.4	255.7	281.1	236.4	229.2	257.2	284.8
Unemployment rate (%)	3.0	4.1	5.2	4.0	3.8	3.9	3.8	3.7
Consumer price inflation (%)	1.3	2.3	1.0	1.2	-0.3	1.4	0.6	1.4
Policy interest rate (% pa, year-end)	4.6	2.3	1.6	1.9	1.6	1.4	1.4	1.4
TWD/USD exchange rate (average)	31.2	32.2	31.6	30.4	31.9	32.3	30.4	30.2
Foreign exchange reserves (US\$ billion)	106.7	253.3	382.0	419.0	426.0	434.2	451.5	461.8

Source: National Development Council, Taiwan Statistical Data Book 2019.



Taiwan economic highlights

- 21st biggest economy in the world
- Top 20 ranked for international competitiveness
- 18th largest goods exporter globally
- Integral part of the global electronics supply chain
- Active member of the WTO and APEC bodies

Figure 2: Taiwan's business environment rankings

International rating indexes	2018-19 global ranking	Release date	Source
World Bank Ease of Doing Business Index	15th out of 190 economies	24 Oct 2019	www.doingbusiness.org
WEF Global Competitiveness Index	12th out of 141 economies	08 Oct 2019	http://reports.weforum.org
IMD World Competitiveness Index	16th out of 63 economies	28 May 2019	www.imd.org/wcc
TI Corruption Perceptions Index	31st out of 180 economies	29 Jan 2019	www.transparency.org/cpi
Heritage Economic Freedom Index	10th out of 180 economies	25 Jan 2019	www.heritage.org/index

International trade overview

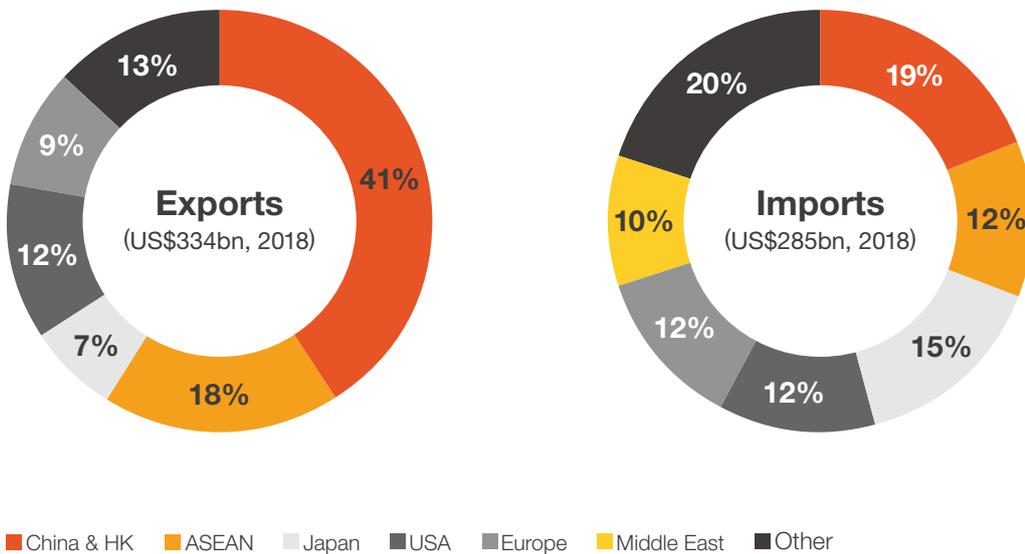
Taiwan’s economy is heavily dependent on world trade, which accounts for around 100% of GDP, with exports the main driver of economic growth. It currently ranks the 18th largest goods exporter in the world and the 17th biggest importer globally. Taiwan’s top trading partner is China (including Hong Kong), which takes over 40% of its exports, followed by the ASEAN bloc, the US, Japan and Europe. Its key exports are electronics, machinery and petrochemicals, and the leading imports are electrical equipment, oil and other mineral fuels.

Taiwan is committed to trade liberalisation as a member of the World Trade Organisation (WTO), having joined in 2002 as “The Separate Customs Territory of Taiwan, Penghu, Kinmen and Matsu.” WTO membership has helped deepen Taiwan’s integration into the global economy and opened up its market to foreign competition; it is a signatory party to the WTO’s Information Technology and Government Procurement Agreements. Taiwan is also a full member of the Asia-Pacific Economic Cooperation (APEC) inter-governmental group.

Given its export dependency, Taiwan is keen to pursue bilateral and regional trade agreements, particularly the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) that came into force in late 2018. Despite Taiwan’s continuing efforts to align itself with international standards, its complicated political status is an obstacle for negotiators. It has so far signed seven free trade agreements with current and former diplomatic allies, as well as economic cooperation pacts with China, New Zealand and Singapore.

Taiwan promotes itself as a regional trade and logistics hub to capitalise on its central location in the Asia-Pacific and to increase its integration into the regional economy. Free trade zones (FTZs), which are designed to attract mobile international investment, are a key part of this policy. Taiwan has a total of seven FTZs, including six seaports and one airport park, which offer tax exemptions and other investment incentives, as well as lighter regulation. Foreign businesses operating in these bonded areas are accorded national treatment.

Figure 3: Taiwan’s top trading partners



Source: Ministry of Finance, Annual External Trade Report in 2018.

Foreign direct investment

Despite Taiwan's relatively small market, making it a challenge to attract foreign investor interest, the government welcomes and actively courts inward investment. In 2018, the various agencies responsible for investment matters were brought together under a new umbrella body, InvesTaiwan, to better attract and service inbound investors.

Foreign nationals can invest in almost all sectors of Taiwan's economy, except in a limited number of sensitive areas for national security and other reasons. These prohibitions or restrictions are detailed in a negative list for foreign investment, which constitutes less than 1% of the production value of Taiwan's manufacturing industries and less than 5% of its services sector. Taiwan has also loosened restrictions on direct investments from China, which are subject to a positive list.

All foreign investors, other than portfolio investors, intending to set up a business or invest in Taiwan are currently required to obtain advance approval, primarily from the Investment Commission of the Ministry of Economic Affairs. Proposed changes announced in January 2019, which are subject to final legislative review, aim to simplify the inward investment review process by replacing the pre-approval requirement with a new post-investment registration mechanism under a certain amount.

Foreign investors enjoy robust legal protection for their investments in Taiwan, including intellectual property rights. Besides the established rules of law, foreign-invested enterprises are afforded the same treatment as domestic businesses under the Statutes for Investment by Foreign Nationals and Overseas Chinese. Moreover, Taiwan has signed bilateral investment agreements with 32 nations, including Japan and China, which serve to promote and protect mutual direct investment.

Taiwan offers various tax and non-tax incentives to encourage corporate investment domestically. The principal tax incentives are provided for R&D and innovation-related activities and investments under the Statute for Industrial Innovation. Taiwan further provides special tax benefits for companies in certain designated areas (including FTZs) and sectors (notably biopharma). Other incentives are available to multinationals that establish regional operations and advanced R&D centres in Taiwan.

Foreign portfolio investment

Taiwan authorities also welcome foreign portfolio investment in the local securities market, with just a simple registration required for foreign investors. Taiwan has a two-tier market for stocks and bonds. The Taiwan Stock Exchange (TWSE) is the main equities board, and the Taipei Exchange (TPEX) is the second-tier securities market for small-cap and emerging stocks, bonds and other financial instruments. At the end of 2018, foreign investors' shareholdings accounted for 40% of the TWSE's market capitalisation and 21.5% of that of TPEX.

Foreign investors investing in Taiwan securities are classified into Foreign Institutional Investors (FINIs) and Foreign Individual Investors (FIDIs). Once registered with the TWSE, capital flows relating to foreign portfolio investment in Taiwan are fully liberalised. In addition, foreign investors are not subject to an ownership ceiling, except in certain restricted companies, or any investment ceiling. Chinese qualified domestic institutional investors too can engage in portfolio investment in Taiwan, but they are subject to tighter rules.

Taiwan's initial public offering (IPO) market is also open to foreign issuers. Subject to the listing rules and requirements of the TWSE or TPEX, a foreign issuer may apply for an IPO listing in Taiwan if its shares are not listed on any foreign stock market. Save for companies incorporated in China, there is no other jurisdiction or industries that would not be acceptable for a listing. Also, foreign companies already listed on certain overseas exchanges can apply for a secondary listing in the form of Taiwan Depositary Receipts (TDRs) on the TWSE or TPEX.

A key consideration for foreign issuers looking to list in Taiwan is its favourable price-to-earnings ratios and high liquidity. Tech-related companies in particular are given high value by local investors familiar with high-tech industries. Furthermore, the costs of IPOs and secondary public offerings are comparatively low on a regional basis. At the end of 2018, a total of 107 foreign-incorporated firms had primary share listings in Taiwan, the majority of which are controlled by Taiwanese investors operating abroad, in addition to 18 TDR listings.

Foreign exchange and other controls

Taiwan's currency is the New Taiwan dollar (NT\$ or TWD) and is regulated by the Central Bank of the Republic of China (Taiwan). It is considered to be a restricted currency, but foreign exchange controls have been progressively liberalised. All foreign exchange transactions in Taiwan must be processed through an authorised bank branch, with the exchange rate based on the market rate offered by each bank. The local dollar fluctuates under a managed floating rate system and capital can, in principle, flow freely in and out of Taiwan.

At present, there are no restrictions on inward or outward remittances related to international trade in goods and services, or deriving from approved direct investment and portfolio investment. Also, no prior approval is required for other non-trade-related remittances if the cumulative amount does not exceed the annual set limits of US\$5 million for an individual or US\$50 million for a corporate entity. Declared earnings, capital gains, dividends, royalties, management fees and other returns on investment may be repatriated abroad at any time.

In addition, foreign investors should be aware of local anti-money laundering (AML) and counter terrorist financing (CTF) laws and regulations. In 2017-2018, Taiwan strengthened its AML/CFT regime to bring it into line with the international standards of the Financial Action Task Force. The latest changes impose stricter requirements on financial institutions and others to combat money laundering activities. The Asia/Pacific Group on Money Laundering evaluated Taiwan in 2018 and found its AML/CFT system to be functioning well.

Financial institutions and designated non-financial businesses or professions (including accountants) are required to conduct customer due diligence to verify the identity of clients and beneficial owners. They also have to record and report transactions above certain amounts and any suspicious activity to the Ministry of Justice's Anti-Money Laundering Division, which is a member of the Egmont Group.

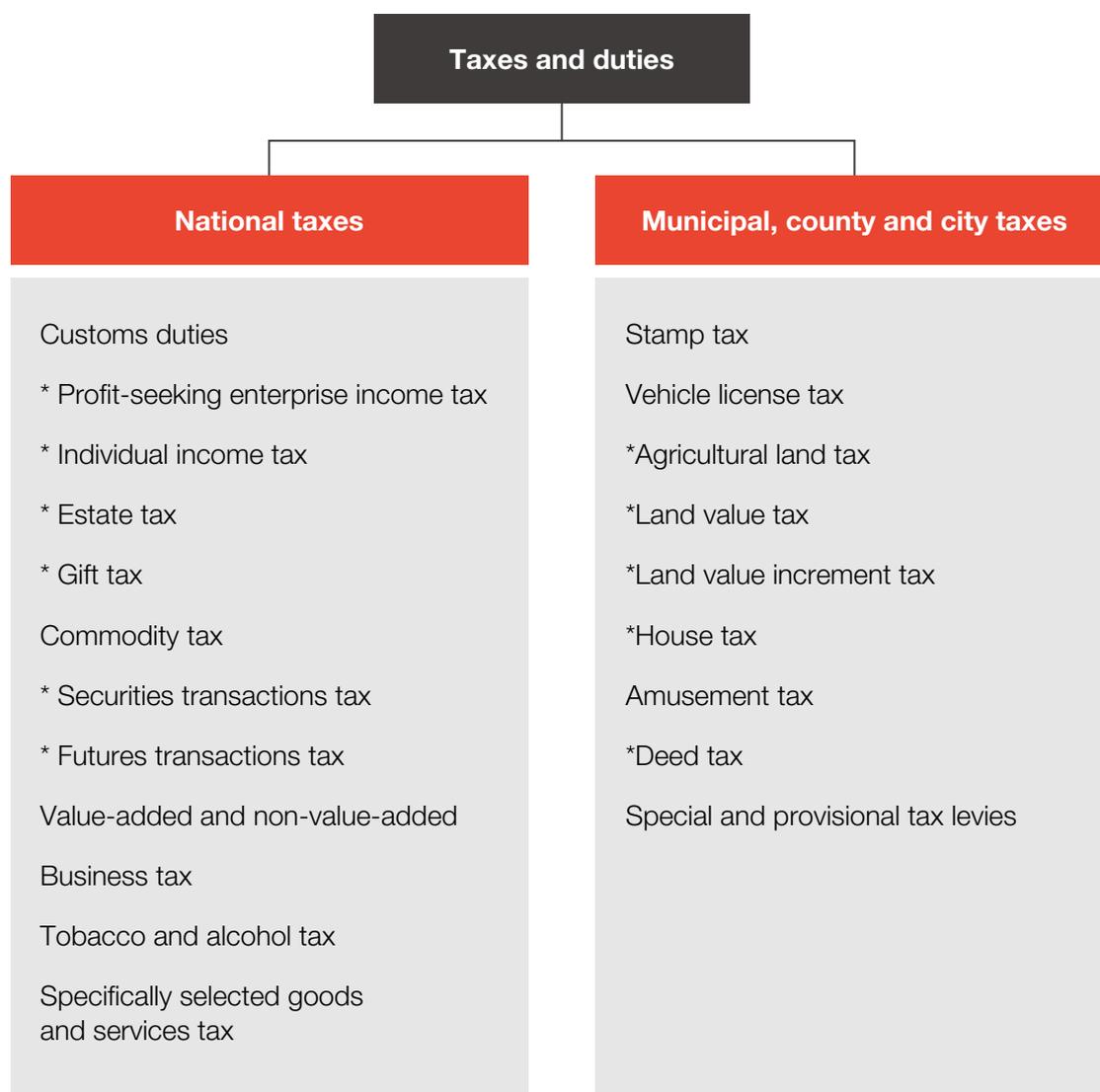
Legal, regulatory and tax systems

Taiwan has a civil law system, and its judiciary is generally perceived as independent and impartial. The Judicial Yuan is one of the five branches of central government and the highest judicial body in Taiwan. It oversees the courts system, which hears criminal, civil and administrative cases that are presided over by professional judges. Taiwan has a three-tier system for criminal and civil cases that consists of district, high and supreme courts; a specialist intellectual property court deals with IP-related cases. The separate administrative court system adjudicates matters relating to public law.

Taiwan's regulatory system is generally regarded as transparent and consistent with international norms. Government ministries typically originate business-related draft legislation and submit it to the Executive Yuan for review and initial approval. The bill is then forwarded to the Legislative Yuan for further scrutiny and final approval. All draft laws and regulations are required to be available for public comment and advanced notice. Proposed regulatory changes of interest to foreign investors are also regularly shared with foreign chambers of commerce based in Taiwan for their comments.

Taiwan has a business-friendly tax system, which the World Bank ranked 39th out of 190 economies globally for the ease of paying taxes in 2019. The Taxation Administration of the Ministry of Finance (MOF) oversees tax policy and collection of inland taxes, and its Customs Administration is in charge of customs matters. Taxes are either classified as national or local, and comprise direct and indirect taxes. National taxes are collected by five regional taxation bureaus under the MOF, and local taxes by the tax bureaus or revenue service offices of the applicable municipal, county or city authority.

Figure 4: Overview of Taiwan's tax system



* Direct taxes

Source: Ministry of Finance, Guide to ROC Taxes 2019.

Business dispute resolution

While the majority of foreign-owned businesses operate successfully in Taiwan, commercial and investment disputes can occur. Typically, these are resolved in accordance with local laws and regulations, and based on national treatment or bilateral investment agreements, with the courts the ultimate judicial authorities. The judgements of foreign courts with jurisdictional authority are enforced in Taiwan by local courts on a reciprocal basis. A party seeking to enforce a final foreign judgement in Taiwan must file a petition in a local court for permission to enforce that judgement.

Arbitration is an alternative method of business dispute resolution, as provided for under Taiwan's Arbitration Act, which is based on the UNCITRAL Model Law. The Chinese Arbitration Association, Taipei (CAA) is the most commonly used body for administering corporate disputes in Taiwan. It has signed cooperation agreements or MOUs with 30 arbitration institutions around the world, including China. Besides, the CAA has expanded its cross-border services in recent years and registered its first overseas branch in Hong Kong in December 2018 to handle disputes seated outside Taiwan.

By agreement, disputants in an arbitration case in Taiwan can determine the governing law of the dispute, rules of procedures, language to be used, authority of the arbitrators, place and location of the arbitration, time of the hearing, and extension of time limits to render the arbitral award, among other factors. A domestic arbitral award is binding on both contending parties, and it has the same legal force and effect as a final court judgment in Taiwan. A foreign arbitral award recognised by a local court in Taiwan has the same legal binding effect as any final court judgment made in Taiwan.

Intellectual property protection

Taiwan has made significant improvements to its intellectual property rights (IPR) legal framework in recent years. An extensive revision of the laws and regulations governing copyright, trademarks, patents, and trade secrets has strengthened the protection and enforcement of IPR. An additional major reform of the copyright law to make it fit for the digital age is currently undergoing legislative review. Thanks to these various enhancements, Taiwan ranks the 20th-best intellectual property environment in the world, according to the 2019 US Chamber of Commerce International IP Index.

Although Taiwan is not a member of the World Intellectual Property Organisation, it adheres to key international IPR accords such as the Berne Convention and the Agreement on Trade-related Aspects of Intellectual Property Rights. Statutory protection for IPR owners in Taiwan is provided in the Copyright Act, Patent Act, Trademark Act, Integrated Circuit Layout Protection Act and the Trade Secrets Act. Taiwan's Intellectual Property Office (TIPO) is the central government agency for IPR matters. Infringement cases come under the jurisdiction of the Intellectual Property Court.

In addition to upgrading its IPR protection regime, Taiwan has stepped up international cooperation on intellectual property, including the signing of a bilateral IPR agreement with China in 2010. More recently, Taiwan has signed bilateral MOUs on IPR protection and enforcement with the US (2017) and European Union (2018). Also, a total of six bilateral patent prosecution highway (PPH), agreements — with the US, Japan, Spain, South Korea, Poland and Canada — are currently under implementation. These PPH programmes allow for the accelerated examination of patent applications.

Chapter 2

Investing & setting up

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The Taiwan government welcomes and supports foreign investment and, although the application and registration procedures can sometimes be bureaucratic, setting up a business or investing in Taiwan is relatively straightforward. This chapter highlights the principal considerations for foreign investors when looking to form a business entity or expand their operations locally through M&A.

Foreign investment regime

Taiwan's regulations on foreign direct investment primarily derive from the Statute for Investment by Foreign Nationals (SIFN) and the Statute for Investment by Overseas Chinese. In accordance with these laws, foreign investors are required to apply for and obtain approval from the Investment Commission of the Ministry of Economic Affairs (MOEAIC) — the central regulatory authority for foreign investment matters — before proceeding with business registration. Foreign investments in an export processing zone or a science park are approved by the relevant administrative agency.

Restrictions on foreign investment

Foreign entities are entitled to establish and own business enterprises and engage in all forms of commercial activity in Taiwan with the exception of a few select areas. The prohibited or restricted sectors for foreign investment are specified in a [negative list](#). These include public utilities, power distribution, natural gas, postal services, certain telecommunication areas, mass media, and air and sea transportation. In addition, there are limits on foreign ownership and control of local firms in certain sectors, such as telecommunications and wireless, television broadcasting, and aviation.

Investors from People's Republic of China (PRC) are subject to other separate regulations. While Taiwan has opened up two-thirds of its aggregate industry categories to Chinese investors, they may only invest in certain kinds of businesses, based on a [positive list](#), and their investment applications receive stricter scrutiny. Besides, foreign investor applicants from other jurisdictions are required to provide a declaration certifying that any Chinese investors in a proposed investment transaction do not hold more than a 30% ownership stake and do not retain managerial control of the company.

Investment review and approval

MOEAIC's [website](#) lists the laws and regulations and required application forms for seeking foreign investment approval. An application must include investor identifications, investment and business plans, as well as documents certifying the inward remittance of investment funds. The application screening process provides Taiwan's regulatory agencies an opportunity to attach conditions to investments in order to mitigate concerns about ownership, structure or other factors. Screening is also used to detect investments with unclear funding sources, including PRC-sourced capital.

According to MOEAIC guidance, non-restricted investments and with capital less than NT\$500m (US\$16m) obtain approval within two to four days. Investments between NT\$500m and NT\$1.5bn (US\$49m) take three to five days to review. For investments in restricted industries, or where the investment amount is more than NT\$1.5bn, or for mergers, acquisitions and spin-offs, the screening takes 10 to 20 days and this includes reviews by other relevant supervisory ministries. Screening for investments involving cross-border M&As or other special situations take around 20-30 days.

In January 2019, the Executive Yuan put forward draft amendments to the foreign investment laws, which intend to replace the existing pre-approval review process with an ex-post reporting system under a certain threshold amount (tentatively set at US\$1m). Approval would still be required in advance for investments exceeding the threshold or involving a substantial percentage of shares, in restricted sectors, or if the investor is a foreign government or from a UN sanctioned region. The proposed changes are subject to final legislative review and approval before they can take effect.

Business entity structures

Most foreign businesses gain their initial foothold in Taiwan by using a local agent or distributor. If the size of the market warrants, a foreign investor may consider establishing a formal legal entity to conduct business locally. The structures available under Taiwan law include a company, branch office or representative office. Also, entrepreneurs may choose the sole proprietorship entity or some form of partnership to do business in Taiwan. Important changes to the Company Act in recent years now also provide start-up owners with a broader array of options to access capital and entice investors.

Taiwan-incorporated company

In Taiwan, there are four types of incorporated structures: an unlimited company; an unlimited company with limited liability shareholders; a limited company; a company limited by shares. The latter category includes the legal form of a closely-held company limited by shares, which was added in 2015 to provide start-up firms with more flexibility in structuring their operations and fund-raising. In practice, foreign enterprises tend to choose the legal form of a limited company or a company limited by shares when considering to set up a subsidiary or a joint venture in Taiwan.

A limited company must have at least one shareholder (either an individual or a legal entity) and one director. A company limited by shares must have a minimum of two individual shareholders or one corporate shareholder, and may choose to have one or two directors. In general, there are no nationality or residency requirements for the directors of companies incorporated in Taiwan.

Except for certain industries requiring a special approval or permit, there is no minimum capital requirement for company registration in Taiwan, but the initial capital should at least cover the set-up costs and be certified by a local CPA. Also, it is important to note that new companies wishing to employ foreign professionals must have capital of at least NT\$5 million (about US\$164,000), which is a separate work approval requirement of the Ministry of Labour. A proposed bill on economic immigration would, if approved, relax this capital requirement for employers in certain industries.

Branch office

A foreign-incorporated company may choose to set up a branch office to do business in Taiwan. While a registered branch has the same rights and obligations as a subsidiary company, it does not have a separate legal identity from that of its parent company, which is fully responsible for its liabilities. A branch office is not required to have shareholders, directors or supervisors. The foreign parent company is only required to designate a representative and a branch manager, who may be the same person or different people, and either a domiciled Taiwan citizen or a foreign national.

There is no minimum capital requirement for the registration of a branch office, but its foreign parent company should remit sufficient working capital before establishment. However, if a branch office wants to employ foreign professionals in its first year of operations, it must in general have initial operating capital of at least NT\$5 million, as is currently the case for an incorporated company.

In practice, a branch office is a more popular form of business structure for tax reasons. For example, the profits of a subsidiary company are subject to Taiwan corporate income tax (currently at a rate of 20%), but when it remits dividends overseas, a 21% (if there is no tax agreement between Taiwan and the destination territory) withholding tax will also be imposed. On the other hand, although the profits of a branch office are subject to the same corporate income tax as a company, no dividend withholding tax equivalent is levied when a branch repatriates after-tax profits to its parent company.

Representative office

Setting up a representative office is the simplest way to establish a business presence in Taiwan, but it is very restricted in what it can do. While this entity may act as the agent of a foreign entity for liaison purposes, it cannot directly engage in commercial activities or act as a principal in any business transactions. Typically, it functions as a sales or purchasing contact. Registering requires only a representative, who can either be a local or a foreign national. There is no capital contribution requirement. Rep offices are generally small with few staff and do not have much tax implications.

Figure 5: Comparison of a subsidiary, branch and representative office

Business type items	Limited company	Branch office	Representative office
Permitted activities	General trading, sales and manufacturing	General trading, sales and manufacturing	Legal acts and liaison activities
Corporate income tax	20%	20%	Not applicable
Profit remittance tax	Withholding tax of 21%	None	Not applicable
Tax incentives under the Statute for Industrial Innovation	Applicable	Not applicable	Not applicable
Extent of the liability of a shareholder or head office	Shareholders liable to extent of their capital contributions	Head office is liable for any liabilities unsettled by branch	Same as for a branch
Requirement for shareholder(s) or responsible person	Must have at least 1 individual or corporate shareholder*	Required to register a representative and a branch manager	Required to register a representative
Requirement for director(s)	Must have at least 1 director*	Not required	Not required
Requirement for supervisor(s)	Not required	Not required	Not required
Minimum capital requirement	No minimum requirement, but capital must be certified by CPA and cover incorporation costs [^]	No minimum requirement, but capital must be certified by CPA and cover incorporation costs [^]	Not required
Sources of capital contribution	Cash or capitalised retained earnings or capital surplus	Initial operating capital must be remitted by offshore head office	Not applicable
Filing of annual tax return	Required	Required	Not required

* A company limited by shares must have a minimum of two individual shareholders or one corporate shareholder, and may choose to have one or two directors.

[^] If the business entity engages in activities that require a special permit or approval, or hires foreigners, the authorities may set a higher capital requirement.

Source: InvesTaiwan website (<https://investtaiwan.nat.gov.tw>).

Business registration process

Taiwan's Ministry of Economic Affairs (MOEA) and local government authorities both handle company registration matters. Different procedures will apply depending on the business structure chosen by an investor. The flowcharts on the opposite page illustrate the step-by-step registration process for setting up a company or a branch office in Taiwan. It generally takes about four to eight weeks to set up either business entity, provided all the required documents are complete and submitted on time.

The InvestTaiwan [website](#) provides full guidance on the business registration process. In general, the procedures for establishing a new company or branch office in Taiwan include reservation of its Chinese name and business scope; approval of foreign investment; inward capital remittance and verification; company or branch registration, followed by tax registration; as well as any other required procedures as necessary. If the entity engages in special or restricted industries, more time will be needed to get the requisite approvals or permits from the relevant authorities in charge.

MOEA has taken steps in recent years to improve the business registration process, as a result of which Taiwan ranks among the global top 21 for the ease of starting a business, according to the World Bank. For instance, the introduction of a one-stop online application platform has cut the number of procedures (to just three) and the time it takes to complete each procedure (to ten days) for a small- to medium-sized limited company to legally start up and formally operate in Taiwan.

In addition, revisions to the Company Act in 2018 eliminated the corporate recognition system for foreign entities. So long as a company has been duly established in its home base jurisdiction, the Taiwan authorities will automatically recognise it, without it needing to specifically apply for such recognition. Furthermore, foreign companies may now register an entity name in English in addition to the required Chinese name, and enjoy certain exclusive rights to use of that name in Taiwan.

Registering a company

After obtaining foreign investment approval from MOEAIC, an investor may remit the investment capital and apply for its verification, and then file an application for a company registration, which can be done [online](#) or in person at the relevant agency. An investor may also carry out the tax registration simultaneously, as well as the labour insurance, national health insurance and pension fund plan appropriation applications in the three-in-one comprehensive application procedure.

For companies with a start-up capital of NT\$500 million (US\$16 million) or more, the investor has to register with the Department of Commerce of the MOEA. If the initial investment is less than NT\$500 million, the new company must register with the local government authority or the Central Region Office of the MOEA, depending on the expected business location. If the company being set up is located in an export processing zone, a science park, or a free trade zone, the investor should apply directly to the administrative agency that is in charge of that particular zone or park.

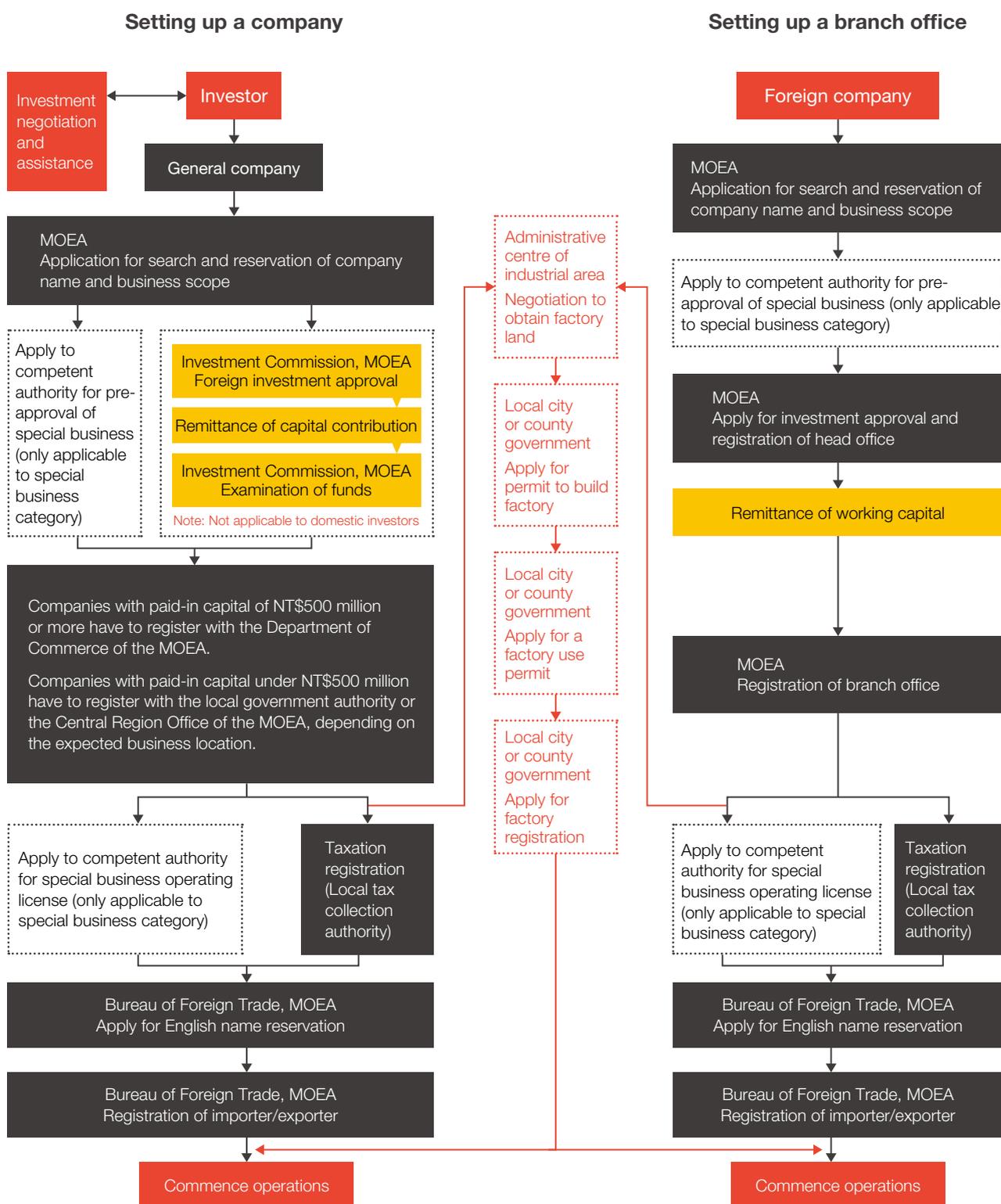
Registering a branch office

To establish a branch office in Taiwan, a foreign parent company previously had to first obtain a certificate of recognition, but this requirement is no longer in force. It now just needs to apply for and obtain registration approval from the MOEA, and then it may submit an application for branch office registration with the economics ministry or other relevant administrative agency, as above.

Registering a representative office

To establish a representative office in Taiwan, a foreign company must first file an application to register the representative with the MOEA, and obtain its letter of approval. It should then apply to the local tax collection office for a tax ID number.

Figure 6: Registration procedures for setting up a company or branch office



Source: InvesTaiwan website (<https://investtaiwan.nat.gov.tw>).

Mergers and acquisitions

Foreign companies can also establish a business presence in Taiwan by merging with or acquiring an existing local firm. M&A activity in Taiwan is governed by several laws and regulations. The Business Mergers and Acquisitions Act (BMAA) is the primary statute covering M&A transactions, while the Company Act and Securities Exchange Act (applicable to public companies) govern all general matters which may be relevant to M&A. The Financial Institutions Merger Act (FIMA) and the Financial Holding Company Act (FHCA) also apply to M&A activity involving financial entities.

The principal government authorities in charge of reviewing and approving M&A deals include the MOEAIC and Financial Supervisory Commission (for M&A involving financial institutions and public companies). The Fair Trade Commission (FTC) is responsible for competition clearance. And if the M&A target holds any special operating licence, the relevant authority in charge may also need to review the transaction. Foreign investors seeking to merge with or acquire a Taiwan company must obtain prior approval, including when acquiring a minority interest or forming a new Taiwan entity.

Business M&A

The BMAA governs mergers, acquisitions and corporate divisions (such as spin-offs). It allows a diverse range of M&A transaction structures, of which the most common ones used in Taiwan are share purchase, asset purchase and merger (or share exchange). The M&A legislation also provides tax benefits to qualifying transactions, including exemption from or deferral of various transfer taxes, in order to encourage business reorganisations and boost operational efficiency.

Financial M&A

The FIMA allows for banks, insurers, securities firms and other financial institutions to acquire or merge with related financial entities. The FHCA allows domestic financial institutions to establish financial holding companies for the purpose of merging with or acquiring financial entities. New rules to encourage financial M&A took effect in late 2018, allowing private financial institutions to initiate a local takeover when holding 10% of a target financial entity, down from 25% previously.

Merger control framework

The Fair Trade Act (FTA) governs anti-competitive and unfair trade practices, including mergers and acquisitions, and the FTC is the regulatory body in charge of the merger control regime in Taiwan. The FTA requires parties intending to merge in a business combination, as broadly defined by the statute (which includes typical M&A transactions), to file a pre-notification with the FTC when certain jurisdictional thresholds are met. The competition authority is then given an opportunity to review and, if necessary, prohibit or impose conditions on the proposed business combination transaction.

The FTA sets forth the following three threshold criteria, any one of which (subject to certain exceptions) triggers a requirement to notify the FTC before the completion of a combination:

- if one of the parties to the transaction has a local market share of at least one-quarter;
- if, post-combination, the resulting entity will have a market share of at least one-third; or
- if the sales revenue during the previous fiscal year of any enterprise that is a party to the combination exceeds a figure set by the FTC.

There are no specific rules on filing deadlines, but notifications must be made at least 30 days prior to consummation of the combination. Sanctions for failure to file include fines and orders to cease or divest. In the event that the FTC does not issue an objection to the proposed combination after 30 working days following the filing date of the pre-merger notification (and all related materials are complete), the transacting parties may combine. The FTC may shorten or extend the 30-working-day waiting period if it is deemed necessary, but any extension cannot exceed 60 working days.

A foreign-to-foreign merger that meets any of the above filing criteria is also subject to local merger control, regardless of the geographical dimension of the affected markets. The global sales of the participating parties must be taken into account in determining whether any of the turnover filing thresholds has been met. Following receipt of the notification, the FTC may, subject to its discretion, decide not to exercise jurisdiction over an extra-territorial merger case. The local effect element is only one of the factors that the FTC will consider in determining whether to grant an exemption.

Chapter 3

Employment matters

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Taiwan has a comprehensive labour law regime that sets out the basic rights and obligations of employers and workers. There have been major changes to Taiwan's employment landscape in the past few years, the most significant of which were the revisions to the working week structure. This chapter provides an overview of the key legal requirements related to employment in Taiwan.

Working terms and conditions

The Labour Standards Act (LSA) is the primary source of employment law in Taiwan. It sets out the minimum requirements for working conditions and employee benefits, including retirement and severance entitlements, which employers must meet or exceed. The LSA applies to all industries and job occupations (with a few exceptions) and covers most workers, including foreign nationals.

The LSA and related regulations are implemented by the Ministry of Labour (MOL) and local labour bureaus. Inspection units established by the MOL or delegated local authorities share responsibility for carrying out checks on workplace conditions. These may include, but are not limited to, health and safety matters, labour insurance, employee welfare funds, and recruitment of foreign workers.

Employment contracts and work rules

While oral employment contracts are permitted, written ones are the common and preferred local practice. Most are for an indefinite term unless otherwise specified. Upon mutual agreement, a contract can be in Chinese, English or any other language. It must include certain essential terms of employment, and may not be amended by the employer unilaterally without employee consent.

Employers with 30 or more workers must establish and file written work rules detailing the terms and conditions of employment in the enterprise. These do not require employees' consent in general, but separate consent from a labour union or a labour management committee may be needed for certain matters. As long as the work rules comply with the LSA, they may form part of employment contracts.

Working hours and overtime rules

Taiwan adopted a five-day working week in 2016, setting the maximum regular working hours at 40 per week and 8 per day, and providing for a legal entitlement to two paid days off every seven days. Prompted by criticisms from both employers and employees about the strict rigidity of the five-day workweek policy, the LSA was revised in 2018 to provide for more flexible working arrangements.

The "one fixed day off and one flexible rest day" provision was relaxed to allow certain business sectors to change the fixed rest day each week, subject to approvals. Also, while overtime work is still limited to four hours per day, employers may with consent extend the maximum overtime per month from 46 to 54 hours, but the total overtime every three months may not exceed 138 hours.

Compensation, bonuses and benefits

Taiwan has a minimum wage system that covers all industries, and an employee may not be paid less than the statutory minimum pay level, which is usually reviewed annually by the MOL's Basic Wage Deliberation Committee. Taking effect from 1 January 2020, the monthly rate was raised to NT\$23,800 (about US\$760) from NT\$23,100 and the hourly rate to NT\$158 (US\$5) from NT\$150.

Regular overtime pay is at one and one-third of the normal wage for the first two hours, and one and two-thirds for the next two hours. Additional pay for work on holidays or annual leave is one times the daily rate, and on rest days at one and one-third of the regular wage for the first two hours, and one and two-thirds for the following six hours. Also, workers may take time off in lieu of overtime pay.

While not mandatory, the payment of contractual or discretionary bonuses to employees is common in Taiwan. Annual bonuses equivalent to one to two months of salary are commonly paid before the Lunar New Year holiday. Under the Company Act, businesses must stipulate in their articles of incorporation a fixed amount or a ratio of annual profits for distribution as bonuses to employees.

The Employees' Welfare Funds Act requires every employer with more than 50 workers to establish a fund for employee welfare activities, and to set up an employee welfare committee to manage it.

Annual leave and public holidays

Annual paid leave is determined by the length of service of an employee with the same employer. The minimum statutory annual leave entitlements are shown in the table below. Any unused annual leave for a given year can, by agreement with an employee, be carried over to the following year. If it is not used within that year or at the termination of a contract, then the employer must pay it out.

In addition, employees are entitled to paid leave for public holidays, as provided under the LSA and enforcement regulations. A total of 12 public holidays are observed each year in Taiwan (see table below). Most private-sector employers tend to follow the annual holiday schedule set by the government's Directorate-General of Personnel Administration for the public sector and schools.

Figure 7: Annual leave entitlement

Length of service	No. of leave days
6 months to 1 year	3
1 year	7
2 years	10
3-4 years	14
5-9 years	15
10 years and above	+1*

* An additional day is added for each year of service over ten years, up to a maximum of 30 days.

Sick leave and other permitted leave

Employees may take up to 30 days leave a year, at half pay, for illnesses and injuries not requiring hospitalisation, and up to one year in the event of hospitalisation. The combined number of sick days taken generally cannot exceed 12 months within a two-year period. Female workers are entitled to an extra three days of menstrual leave a year on top of the 30 days sick leave given to all workers.

Employees are also allowed to take a special leave of absence under specified circumstances, with or without pay. The following types of leave are fully paid: marriage (eight days), bereavement (three to eight days depending on the familial relation), and other absences as required by law (such as military service). In addition, employees may take up to 14 days of unpaid personal leave per year.

Figure 8: Annual public holidays

Holiday	Date
ROC's Founding Day	1 January
Chinese New Year's Eve	Last day of the lunar calendar (usually falls in January or February)
Chinese New Year	First three days of the lunar calendar (usually falls in January or February)
Peace Memorial Day	28 February
Children's Day	4 April
Tomb Sweeping Day	Based on the lunar calendar (usually falls on 5 April)
Labour Day	1 May
Dragon Boat Festival	Based on the lunar calendar (usually falls in June)
Mid-Autumn Festival	Based on the lunar calendar (usually falls in September or October)
National Day	10 October

Parental rights and childcare

Pregnant workers are entitled to five days of paid leave for pre-natal check-ups, and eight weeks of full-pay maternity leave for each childbirth, but at half pay if employed for less than six months. The spouse is granted five days of paid paternity leave. Also, employees with six months of employment can apply for up to two years of unpaid parental leave until their children reach three years of age.

The Gender Equality in Employment Act (GEEA) provides for nursing and childcare arrangements. It requires employers with 100 or more workers to have childcare facilities and relevant childcare measures. Breastfeeding mothers nursing a child under two years of age are allowed an extra 60-minute break per day, as well as an additional 30 minutes for every one hour of overtime worked.

Protections against discrimination

The Employment Services Act provides workers a number of protections against discrimination in the workplace. The GEEA prohibits discrimination on the basis of gender or sexual orientation in any aspect of employment. It also protects against sexual harassment at work; companies with 30 or more employees have to establish and publicise guidelines to prevent and correct such offences.

The disability law prohibits discrimination against persons suffering from a disability, and requires private organisations with 67 or more workers to employ at least one disabled person, or disabled workers in numbers equal to at least 1% of their total workforces. Employers not meeting the hiring quota for disabled persons have to contribute to local disabled employment funds in amounts equal to the statutory monthly minimum wage times the number of vacant positions below the threshold.

Employee data protection

The collection and use of personal data in Taiwan is primarily regulated by the Personal Information Protection Act (PIPA). It stipulates any collection, processing and use of an employee's personal information by employers must be for a specific purpose. Employees must be notified prior to any collection as to how their data will be used and their rights in respect of the personal information.

Employees have a right to obtain copies of any personal information held by their employer. In general, an employer may retain an employee's personal data for as long as the specific purpose for retaining the information exists or the retention period hasn't expired. Under the PIPA, employers may be penalised for failure to provide adequate protection for employees' personal information.

Health and safety obligations

The Occupational Safety and Health Act (OSHA) covers all industries and employees (with a few exceptions), and places various obligations on employers to provide for a safe workplace. They must formulate a health and safety management plan based on the scale and characteristics of their business entities, and put in place a system to manage workplace health and safety matters.

To counter a prevalent culture of overwork, the OSHA requires employers to take precautionary measures to avoid chronic overwork or repetitive procedures over an extended period of time by workers. Companies with 50 or more workers are required to hire or use contracted medical staff to conduct employee protection health checks, such as health management and wellness promotion.

Social insurance contributions

Taiwan's social security system includes various types of insurance programmes. The main ones are labour (including employment) insurance and national health insurance. Both employers and employees are required to make contributions, based on payroll, to these mandatory schemes.

Labour and employment insurance

In general, enrolment in the labour insurance (LI) scheme is compulsory for organisations with five or more employees, and is voluntary for smaller firms. It provides benefits to workers in the case of non-occupational and occupational illnesses or injuries, as well as disabilities, old age and death.

The LI premium is calculated based on the total amount of the insured employee's monthly salary (up to a maximum of NT\$45,800) at the current rate of 10%. The premium is jointly paid by the employee (20%), employer (70%) and the central government (10%). Employers are also required to pay an additional 0.11% to 0.96% (depending on different categories of business) premium for occupational accident insurance for employees.

The employment insurance (EI) scheme provides benefits in the event of involuntary unemployment. The EI premium rate is currently 1% of insured salary and paid by the employer (70%) employee (20%) and government (10%). Both the LI and EI premiums are levied simultaneously, if applicable.

National health insurance

The National Health Insurance (NHI) programme provides comprehensive and universal medical care benefit coverage for both hospitalisation and outpatient care, including dental and eye care. Employers are required to pay NHI premiums for all their employees and qualified family members.

The regular NHI premium is calculated based on the insured employee's monthly salary (up to a ceiling of NT\$182,000) at the current rate of 4.69%. Payment is shared between the employee (30%), employer (60%) and the government (10%). The employee pays 1.41% for each dependent (up to a maximum of three), while the employer pays an additional 0.58 (as from 1 January 2020) times the NHI premium for the employee's dependents.

In addition, the insured will be charged a 1.91% supplementary NHI premium when receiving certain other types of income. Employers must also pay the 1.91% NHI premium, based on the difference between the total monthly salary they pay and the insured payroll amount they report.

Figure 9: Labour and employment insurance premium calculation

Monthly premium calculation	Employee portion	Employer portion	Government portion
Based on maximum salary grade [#]	$45,800 \times 11\% \times 20\%$	$45,800 \times 11\% \times 70\%$	$45,800 \times 11\% \times 10\%$
Premium payment portion amount	NT\$1,008	NT\$3,527	NT\$504

Calculated based on the insured employee's monthly salary according to a table of salary grades, up to a maximum of NT\$45,800.

Figure 10: National health insurance premium calculation

Monthly premium calculation	Employee portion*	Employer portion*	Government portion
Based on maximum salary bracket [#]	$182,000 \times 4.69\% \times 30\%$	$182,000 \times 4.69\% \times 60\% \times 1.58$	$182,000 \times 4.69\% \times 10\%$
Premium payment portion amount	NT\$2,561	NT\$8,092	NT\$854

Calculated based on the insured employee's monthly salary according to a payroll bracket table, up to a maximum of NT\$182,000.

* The insured employee pays an additional 1.41% (i.e. $4.69\% \times 30\%$) for each dependent—up to a maximum of three, even if the actual number of dependents is higher—while the employer pays an additional 1.63% (i.e. $4.69\% \times 60\% \times 0.58$) for the employee's dependents.

Mandatory pension contributions

In addition to the old-age benefit available under the LI programme, employees are also entitled to receive employer-provided retirement benefits from two separate statutory pension schemes: an old pension system established by the LSA, or a new programme introduced under the Labour Pension Act (LPA) in July 2005. Most Taiwanese workers are now enrolled under the LPA system.

Old pension system

Employees not eligible under the LPA are covered by the LSA's defined-benefit pension scheme, in which employers make monthly contributions in the range of 2% to 15% of a worker's wage into a pension reserve account at the Bank of Taiwan. Ownership of the fund belongs to the employer, and its operation is supervised by an employer-employee committee. Once a worker can legally retire and applies for their pension, the employer can allocate the accumulated funds to pay it out.

To qualify for the lump-sum payment, an employee must have reached age 55 and worked 15 years, or at age 60 with ten years of service, or at any age with work seniority of 25 years. The payment is equal to two months' average salary for each year of service in the initial 15 years, plus one month's average salary for each additional year of service (up to a maximum of 45 month's pay).

New pension system

Under the LPA's defined-contribution pension scheme, employers must contribute at least 6% of an employee's monthly salary to individual labour pension accounts managed by the Bureau of Labour Insurance, with ownership going to the worker. In addition, employees may voluntarily contribute up to 6% of their monthly salary to their individual accounts on a tax-deductible basis.

Enrolled employees are eligible to start receiving monthly pension payments on reaching 60 years of age or their work seniority equals 15 years or more. A worker with less than 15 years of service can only receive the lump sum of the principal and accrued dividends in their individual account.

Besides Taiwanese nationals, the LPA's coverage has been extended in recent years to also include foreign spouses of Taiwanese citizens, as well as all foreigners with permanent residency in Taiwan.

Figure 11: Old and new pension systems comparison

Topic	Old pension system	New pension system
Legal basis	Labour Standards Act	Lump sum or monthly payment
Level of contributions	2% to 15% of worker's monthly wage to be deposited in a pension reserve fund	Employers must contribute at least 6% of worker's monthly wage to an individual pension account. Workers may voluntarily contribute up to 6% of their monthly wage.
Basis for calculating pension payments	Average monthly wage of the six months prior to retirement	Monthly wage (determined by the Table of Monthly Contributions for Labour Pension)
Method for calculation seniority	Work seniority must be at the same business entity	Accumulated amount of pension funds, not restricted to one business entity
Conditions for receiving pension payments	Work seniority of 25 years, or having worked 15 years and 55 years of age, or worked 10 years and reached age 60	Reach age 60, regardless of working or retired; if deceased before age 60, family or designated beneficiaries may claim
Standards of benefits	Based on a defined benefit formula as prescribed in the Labour Standards Act	Accumulated principal and accrued dividends of the pension account
Method of payment	Lump sum payment	Monthly payment if work seniority is 15 years or more, or a lump sum payment if work seniority is less than 15 years
Ownership	Employer	Worker

Source: Bureau of Labour Insurance website (www.bli.gov.tw).

Termination and severance pay

Taiwan does not recognise “at will” termination of employment. The LSA specifies the grounds on which an employee may be unilaterally terminated and whether advance notice and severance pay must be provided by the employer. Unless the employer can establish one of these legal ways to terminate employment, the employer cannot terminate an employment contract at discretion.

Terminations with notice

An employer may legally terminate an employee with notice, or payment in lieu, where the business ceases operations; suffers an operating loss or contraction; suspends operations for more than a month due to force majeure; a change in business nature requires fewer employees and the affected workers cannot be reassigned; or where a worker is incapable of undertaking his/her assigned tasks.

Under the above circumstances, the employer is required to give advance notice to employees. The minimum notice period is ten days for service of three months to one year; 20 days for one to three years of service; and 30 days for three or more years of service. After receiving a lay-off notice, an employee is entitled to two days’ paid leave per week to search for new employment.

The calculation of the mandatory severance pay depends on the statutory pension scheme under which the employee is enrolled. Under the old LSA system, severance is one month’s average salary for each full year of service without a cap. Under the LPA system, severance is one half of the employee’s average salary for every year of service up to a maximum of six months’ pay.

Terminations without notice

An employee can be immediately terminated for cause, without advance notice or severance pay, as a result of certain acts of misconduct. These include misrepresentation at the time of hire; gross misconduct or violent acts; imprisonment; serious breach of work rules; damage of company property or disclosure of confidential information; and unauthorised work absence without leave.

Collective dismissals

Employers proposing to implement mass lay-offs are subject to additional obligations under the Act for Worker Protection of Mass Redundancy. The law grants procedural protections to workers, and prescribes sanctions against employers who close their businesses or implement mass redundancies without settling wages. The criteria thresholds for triggering the law are detailed in the table below.

Figure 12: Mass redundancy trigger criteria

No. of workers at site	No. of layoffs	Timeframe
< 30	> 10	60 days
30-200	> 20	1 day
	1/3 of workforce	60 days
200-500	> 50	1 day
	1/4 of workforce	60 days
> 500	> 80	1 day
	1/5 of workforce	60 days
Any number	> 100	1 day
	> 200	60 days

Once triggered, the employer must notify the local labour authority and the affected workers — first through their union (if applicable), followed by the labour representatives of the labour-management committee, and lastly the workers themselves — at least 60 days before the proposed termination date. The employer and labour must then enter into negotiations within the first ten days of this 60-day period on the terms of the mass redundancy plan.

Employee relations and unions

Taiwan law protects workers' rights to join unions, conduct legal strikes and bargain collectively with employers. Having a labour union in the workplace is not mandatory, but companies must establish a labour-management committee. The purpose is to promote coordination and cooperation between management and employees by meeting regularly to discuss and negotiate relevant labour issues.

Labour unions

Most workers have the right to form and join unions under the Labour Union Act. The law allows for three types of unions — corporate, industrial and professional unions — to represent the collective interests of workers. It prohibits employers from unfairly treating or imposing undue interference on union members and employees who intend to join, establish or participate in union activities.

There were 5,536 unions in Taiwan at the end of 2018 with 3.4 million members, comprising about 30% of the total labour force. This is somewhat misleading, however, as local unions have not traditionally exercised the collective bargaining power associated with unions in the West. Most have been set up by self-employed professionals to assist enrolment in the social security system.

Collective bargaining

The Collective Agreement Act stipulates the rights and obligations of collective bargaining between labour unions and employers. The latter must participate in good-faith requests for negotiations for collective bargaining, but employers are not legally required to conclude an agreement. The law states that only the employer (represented by management or an employer organisation with juristic person status) and officially-recognised unions are qualified to sit at the bargaining table.

In practice, collective bargaining in Taiwan occurs at the enterprise level and is limited mostly to large companies. The percentage of workers covered by such agreements is relatively small, as employers typically tend to set wages and establish terms and conditions of employment that are consistent with the market. The number of collective agreement cases in Taiwan was 713 as of the end of 2018.

Labour dispute resolution

Labour disputes in Taiwan are subject to the Act for Settlement of Labour-Management Disputes, and classified as rights or adjustments disputes. The law provides mechanisms for arbitration and conciliation of labour disputes. In the event of a labour dispute, the parties can negotiate among themselves, initiate a civil court case or apply for conciliation at the relevant local labour bureau.

A new law, the Labour Dispute Act, was passed in late 2018 to streamline the legal procedures for labour disputes, and to promote efficiency and fairness in court proceedings. Implementation of the statute, which took effect on 1 January 2020, is expected to accelerate the resolution of labour disputes between employers and employees in both labour mediation and civil litigation settings.

Employment of foreign workers

Foreign nationals, with a few exceptions, must have the necessary employment authorisation (work permit) as well as the appropriate visas and residence permits to work and stay legally in Taiwan. The Employment Services Act governs the hiring of foreigners, and the MOL's Workforce Development Agency is the primary responsible body for processing and issuing work permits.

Employment authorisation criteria

Both foreign nationals wishing to work in Taiwan and their sponsoring employers have to meet certain qualifying criteria before being granted employment authorisation. Under existing law, foreign white-collar applicants generally must have a university degree, at least two years of relevant work experience, and a job in Taiwan paying a minimum monthly salary of NT\$47,971.

Also, Taiwan-based companies or branch offices seeking to hire foreign professionals must either have annual sales revenue of over NT\$10 million, generate commissions of at least US\$400,000 a year, or have actual imports and exports of more than US\$1 million a year. Companies less than a year old must have paid-in or operating capital of at least NT\$5 million to be able to hire foreigners.

Work permits and residency

The sponsoring employer submits an application for a work permit to the Workforce Development Agency. A work permit can be issued for a valid period of up to three years, and the employer can apply for an extension if necessary. The whole application process, from preparation of required documents through to issuance of the work permit, typically takes about one month or so to complete.

The foreign employee must then obtain a visitor or resident visa, depending on the terms of the work permit and duration of stay. A foreigner granted a resident visa to stay for more than six months must apply to the National Immigration Agency to obtain an Alien Resident Certificate (ARC). It usually takes about ten or so working days to complete the ARC application process.

New measures to woo foreign talent

With employers in Taiwan facing challenges on hiring and talent shortages, the government has recently begun to revise its immigration rules and consider other legislation to woo foreign talent. The Act for the Recruitment and Employment of Foreign Professional Talent, which took effect in 2018, has introduced several measures aimed at attracting more foreign professionals to Taiwan.

This new law relaxes work, visa and residency rules for foreign professionals in certain fields, and also offers tax, insurance and retirement benefits — but without changing the qualification criteria for these workers. A new Employment Gold Card provides “foreign special professionals” greater freedom and convenience in seeking employment, working or changing jobs in Taiwan; the duration of work permits for foreign special professionals has been extended to five years.

Moreover, the government has proposed a New Economy Immigration Act, which aims to boost the recruitment and retention of mid-level skilled talent from abroad. The bill, which is currently undergoing review, seeks to relax and broaden the scope of work and residency rules for foreign professionals, foreign mid-level technicians, Taiwanese expatriates and immigrant investors.

Chapter 4

Financials & audit

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Businesses in Taiwan have to maintain accounting records and prepare their financial statements in compliance with local corporate legislation, and in accordance with Taiwan-International Financial Reporting Standards (T-IFRS), or local Enterprise Accounting Standards (EAS) that are a simplified version of T-IFRS. This chapter highlights the key statutory requirements for accounting, financial reporting, audit and corporate governance matters.

Regulatory framework

The accounting affairs of profit-seeking enterprises established under Taiwan's business registration and corporate laws must be handled according to the Business Entity Accounting Act. This stipulates the accounting records to be maintained and the provisions for financial statements. The Company Act and related rules set the financial reporting and audit requirements for all business entities, and the Securities and Exchange Act and stock exchange rules lay down additional reporting and disclosure obligations for both public and listed companies.

The principal regulator is the Financial Supervisory Commission (FSC), which oversees the financial markets and enforces financial reporting rules for listed and unlisted public companies as well as financial institutions. It endorses the accounting and auditing standards issued by the Accounting Research and Development Foundation (ARDF), which is the national standard-setting body. The Ministry of Economic Affairs (MOEA) is the main authority for administration of private companies.

Also, the FSC is the statutory audit regulator under the Certified Public Accountant (CPA) Act, which empowers it to supervise the CPA profession and the work of auditors. Currently, the FSC delegates the auditor oversight and audit quality inspection functions to the Accounting and Auditing Division of the Securities and Futures Bureau. The FSC has a formal cooperative arrangement with the US Public Company Accounting Oversight Board regarding the inspections of Taiwan-based audit firms. Moreover, the European Union recognises Taiwan's auditor oversight system as equivalent.

Financial reporting standards

Taiwan adopted IFRS standards from 2013, and the FSC now fully adopts the latest version after an endorsement process. All IFRS standards and interpretations issued by the global International Accounting Standards Board (IASB) are officially translated into traditional Chinese by the ARDF and ratified by the FSC. The translated documents are collectively known as Taiwan-IFRS or T-IFRS. Business enterprises are required to prepare and present their financial statements in accordance with some form of IFRS as endorsed by the FSC.

All listed and unlisted public companies as well as financial institutions have to comply with T-IFRS in the preparation of their financial statements and reporting. Only those domestic companies whose equity securities also trade in another jurisdiction are allowed to use full IFRS as issued by the IASB, though a reconciliation to T-IFRS is required. At the same time, foreign securities issuers in Taiwan may prepare their financial statements according to T-IFRS, full IFRS or US GAAP, but they must disclose any necessary reconciliations to T-IFRS.

Non-public companies that are not subject to the Securities and Exchange Act nor the supervision of the FSC, but are subject to the administration of the MOEA, can apply either T-IFRS endorsed by the FSC, or the Taiwan EAS developed by the ARDF. These local accounting standards were introduced in 2016 and are essentially a simplified version of IFRS financial reporting requirements.

Audit requirements

All public companies and many private companies are required by law to have their annual financial statements audited by a Taiwan-licensed CPA. In addition, certain companies must also have their income tax returns certified by an external auditor. A capital verification audit and report by a CPA is also required when establishing a new company or for any change in a company's paid-in capital.

Financial statement audit

Previously, only companies with paid-in capital of NT\$30 million (about US\$1 million) or more were required to have their annual financial statements audited and certified by a Taiwan-licensed CPA. As from 1 January 2019, following amendments to Taiwan's Company Act, private companies with paid-in capital of less than NT\$30 million but with more than 100 employees, or annual net operating revenue exceeding NT\$100 million (US\$3 million), also must have their financial statements audited.

All public companies and financial institutions are required to have their financial statements audited by a registered audit firm, as well as to meet other reporting requirements. For example, listed entities must have their annual financial reports certified by an external auditor within three months of their fiscal year-end. Public companies have to file their audited accounts with the FSC, whereas private companies are not required to announce or register their financial statements, and just have to make them available for review by the MOEA on request.

Corporate tax return certification

Certain companies—including public companies, banks and other financial institutions, as well as other companies whose annual net revenues and non-operating income exceed NT\$100 million—are also required to have their income tax returns examined and certified by local licensed CPAs. A tax compliance certification review is conducted to verify whether a company has calculated and filed its tax return correctly, in accordance with all applicable regulations. A tax compliance report is subsequently submitted to the local tax office.

Auditor's responsibilities

In Taiwan, statutory financial statement audits are performed by registered audit firms and are conducted in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by CPAs, as well as the Statements of Auditing Standards issued by the ARDF. The majority of Taiwan's current auditing standards were adopted with reference to the International Standards on Auditing issued by the International Auditing & Assurance Standards Board (IAASB).

Auditor independence is key to the integrity of the audit process. In Taiwan, an auditor is prohibited from becoming a director or officer of an audited company, or having a direct or indirect financial interest in the company being audited. At present, audit firm rotation is not mandatory in Taiwan, but engagement partners who audit listed companies must rotate after seven years and be off the audit for at least two years. Also, the annual financial statements of public companies must be certified by two audit partners from the same firm, whose names must be disclosed in the auditor's report.

This report is the final output of the audit process, and it may conclude with an unqualified opinion, qualified opinion, adverse opinion or disclaimer of opinion. The report must specify the reasons for other than an unqualified opinion. Also, Taiwan has adopted the new auditor's report standard as issued by the IAASB in 2015, which is intended to provide a more relevant and informative report.

An illustrative example of the new auditor's report in Taiwan is shown on the next page. The opinions of the auditor are expressed in the first paragraph of the report, which is followed by descriptions of important audit matters discovered by the auditor during the audit process and auditing procedures adopted for these matters, and then explanations of the respective responsibilities of the auditor and the company's management in the audit process.

Figure 13: Sample independent auditor's report

To the Board of Directors and Shareholders of ABC Co., Ltd.

Opinion

We have audited the accompanying financial statements of ABC Co., Ltd. (the "Company"), which comprise the balance sheets as of December 31, 20XX and 20YY, and the statements of comprehensive income, changes in equity and cash flows for the years then ended, and the notes to the financial statements, including a summary of significant accounting policies

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 20XX and 20YY, and its financial performance and its cash flows for the years then ended in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the International Financial Reporting Standards (IFRS), International Accounting Standards (IAS), IFRIC Interpretations (IFRIC), and SIC Interpretations (SIC) endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China.

Basis for Opinion

We conducted our audit in accordance with the Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants and auditing standards generally accepted in the Republic of China. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Financial Statements section of our report. We are independent of the Company in accordance with The Norm of Professional Ethics for Certified Public Accountants of the Republic of China and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the Company for the year ended December 31, 20XX. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters for the Company's financial statements of the current period are stated as follows:

[Title of Key Audit Matter

Description

How our audit addressed the matter]

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with the Regulations Governing the Preparation of Financial Reports by Securities Issuers and the IFRS, IAS, IFRIC, and SIC endorsed and issued into effect by the Financial Supervisory Commission of the Republic of China, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

Those charged with governance, including the Audit Committee, are responsible for overseeing the Company's financial reporting process.

Auditors' Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the auditing standards generally accepted in the Republic of China will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the auditing standards generally accepted in the Republic of China, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

1. Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
2. Obtain an understanding of internal controls relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
3. Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
4. Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.
5. Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
6. Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Company to express an opinion on the financial statements. We are responsible for the direction, supervision and performance of the audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements for the year ended December 31, 20XX and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Corporate governance

Taiwan has taken active steps in recent years to improve its corporate governance (CG) system. In 2013, the FSC issued a five-year roadmap to improve CG rules and practices across a number of areas, including the mandatory introduction of independent directors and audit committees. To maintain the momentum of reform, the roadmap was updated in 2018 to outline the next series of improvements, including proposals to introduce CG professionals to support boards of directors.

In Taiwan, the corporate governance principles for domestic companies are set out in the Company Act and Securities Exchange Act, as well as the stock exchanges' listing rules and best practice codes. To help drive improvement in CG culture among companies, the Taiwan Stock Exchange's Corporate Governance Centre annually assesses the CG performance of all listed companies, with the quantitative data showing significant progress since the evaluation system first started in 2014.

Independent directors

Certain public reporting companies are required to appoint at least two independent directors to seats on their boards, and not less than one-fifth of all directors, to ensure the board's function and safeguard the interests of the shareholders. The mandatory requirement for independent directors has been phased in since 2013, and now applies to all listed and emerging stock board companies.

Audit committees

The establishment of audit committees became a mandatory requirement for public companies from 2013 onwards, and currently applies to listed and emerging stock companies. An audit committee must have at least three independent directors, at least one of whom has accounting or financial expertise. Its main role is to review the company's internal control systems and its financial reports.

Sustainability reporting

Another significant development in recent years has been the increase in sustainability reporting, as part of the growing trend toward environmental, social and governance (ESG) investing. In 2015, Taiwan introduced mandatory annual corporate social responsibility (CSR) reporting for certain listed companies, and such reports must follow the Global Reporting Initiative (GRI) Standards.

The CSR reporting requirement currently applies to Taiwan-listed companies in the food, financial and chemical industries, as well as enterprises which derive more than 50% of their total annual revenue from food and beverage sales. Other public-listed entities with paid-in capital of NT\$5 billion (around US\$160 million) or more are also required to prepare and file annual CSR reports.

CSR reports typically include various non-financial disclosures on environmental, social impacts and other corporate governance matters relevant to sustainable development. Such information may be assured, verified or certified by an independent third-party. The filing deadline for CSR reports is the end of June each year, but it can be extended to 30th September under certain circumstances.

In addition, due to continuing concerns about the reasonableness of employee salaries and wages, starting from June 2019, listed companies are also required to disclose the average compensation paid to non-manager employees. The intention is to give investors a better idea of whether listed companies are reasonably compensating their employees and fulfilling their social responsibility.



Chapter 5

Corporate taxation

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This chapter provides an overview of the principal provisions governing direct taxation of companies in Taiwan. The information here is drawn from the annual Taiwan Pocket Tax Book and monthly tax updates produced by PwC Taiwan, which readers can access at www.pwc.tw/en/publications.html.

Corporate income tax

Companies and other forms of business entities operating in Taiwan are subject to profit-seeking enterprise income tax, also known as corporate income tax (CIT), unless exempt under the Income Tax Act and other regulations. The tax residence status of a company determines how and at what rate the CIT is imposed, and is based on where the entity is registered or its head office is located.

Corporate tax residence

A company that is incorporated in Taiwan (such as a local subsidiary of a foreign company), or with its head office in Taiwan, is deemed resident for tax purposes. It is subject to corporate income tax on its worldwide income, though a foreign tax credit is available for income tax paid in other countries on income derived from sources outside Taiwan.

A company with its head office outside of Taiwan but having a fixed place of business (FPOB) in Taiwan (such as a branch of a foreign company), or having a business agent in Taiwan, is deemed to be non-resident for tax purposes. It is subject to CIT only on its Taiwan-sourced income, at the same rate as applicable to resident companies.

A company having no FPOB or business agent in Taiwan is also deemed to be non-resident, and is generally subject to withholding tax on its Taiwan-sourced income. Depending on the income type, the applicable withholding rate may be reduced if the recipient entity is covered under a tax treaty signed between its home jurisdiction and Taiwan.

Also, where a foreign e-commerce operator with no physical presence in Taiwan renders cross-border electronic services to Taiwanese customers (including companies and individuals), the income derived from such services is considered to be Taiwan-sourced income and thus subject to CIT.

Corporate tax rates

Taiwan's corporate tax rate is currently a flat 20% which is levied on companies with annual taxable income more than NT\$120,000 (about US\$4,000). However, the amount of the tax payable may not exceed one-half of the portion of taxable income in excess of the minimum threshold. For companies with annual taxable income of NT\$500,000 or less, the CIT rate is 19% for 2019, and 20% for 2020.

Figure 14: Corporate income tax rates

Taxable income	Tax rate
Up to NT\$120,000	0%
NT\$120,000 and above	20%

Alternative minimum tax

Taiwan also imposes an alternative minimum tax (AMT) on certain enterprises under the Income Basic Tax Act. The AMT applies to all resident companies, as well as non-resident entities with a FPOB or business agent in Taiwan, if they earn certain tax-exempt income, or their annual basic income (i.e. the sum of regular taxable income plus add-back items) is more than NT\$500,000.

Taxpayers have to pay the higher of the regular income tax liability or the AMT payable. The latter is calculated based on a company's annual basic income less a deduction of NT\$500,000, times the current flat rate of 12%. The add-back items include approved tax-exempt income under tax incentive schemes, tax-exempt capital gains from qualified securities and futures transactions, and tax-exempt income of offshore banking branches.

Profit retention tax

In addition, a surtax of 5% (in effect from tax year 2018) is imposed on current after-tax profits that remain undistributed in the following year. Non-resident shareholders are now no longer able to offset the surtax paid against withholding tax due on dividends received. Taiwan branches of non-resident companies are not subject to the surtax.

Income determination

Taiwan resident companies are taxed on their net income, which is defined as gross revenue minus costs, expenses, losses and taxes (excluding CIT). Except for certain exempt items, income from all sources, including onshore and offshore, is subject to CIT. Accounting profit is used to determine a company's taxable income, adjusted for exempt and non-deductible items, tax allowable provisions and tax losses carried forward, among other items.

Taiwan-sourced income

Non-resident companies are only taxed on their Taiwan-sourced income. Article 8 of the Income Tax Act and related guidelines define the types of income that should be regarded as sourced from Taiwan. For certain of these items (e.g. business profits and service income), the related costs and expenses incurred, both onshore and offshore, are deductible to arrive at net taxable income, subject to provision of supporting evidentiary documents.

In practice, however, it is often difficult for foreign companies to substantiate their offshore costs or expenses for deduction in Taiwan. To address this situation, in September 2019, the Taiwan-sourced income recognition regulations were amended to allow non-resident companies without a FPOB or business agent in Taiwan to alternatively apply a deemed profit rate and onshore profit contribution ratio to their Taiwan-sourced business profits and service remuneration, subject to pre-approvals.

Exemptions

Certain income items are not included in taxable income, as specified by tax law. These include, but are not limited to, capital gains from securities and futures transactions; dividends received by a resident company from another Taiwan enterprise; and certain technical service fees received by foreign companies for the construction of plants in Taiwan. Any losses or expenses attributable to such tax-exempt income items are not deductible.

Gains from property sales

A separate income tax system applies to capital gains from property transactions, which covers properties acquired on or after 1 January 2016, as well as those purchased on or after 2 January 2014 if held for less than two years. The tax base is the property's sales price minus related costs, expenses, and the increment in assessed value of the land portion of the property. A rate of 20% applies to resident companies, and a rate of either 45% or 35% to non-resident entities, depending on whether the property is held for a year or more.

The increment in government-assessed value of the land sold in a property transaction is subject to the land value increment tax (LVIT), but it can be deducted from the tax base when calculating the income tax payable on said transaction. The old property tax system still applies to properties purchased before 2 January 2014, or those bought after 2 January 2014 if held for more than two years, where only gains from the sale of buildings are subject to income tax, while LVIT applies to the increment in the assessed value of the land.

Dividend income

Taiwan abolished its imputation tax system for companies in 2018 and replaced it with a new dividend tax regime for individuals. Dividend distributions between resident companies are exempt from CIT in the hands of the recipient company. Any dividends received from foreign subsidiaries are taxable, but foreign tax credits are given for withholding taxes paid offshore.

For non-resident shareholders (both corporate and individuals), income tax is withheld at source on dividends received from Taiwan companies. The withholding tax rate for dividend payments made abroad is 21%, but may be reduced under available tax treaties. No withholding tax is levied on dividends paid to Taiwan resident shareholders.

Deductions

In general, costs, expenses and losses incurred in the ordinary course of business are deductible for tax purposes, with certain expenses subject to tax limits. Claims for deductions must be supported by adequate documentation, such as government uniform invoices (GUs) for domestic purchases.

All businesses in Taiwan (except for small entities with monthly sales under NT\$200,000 and certain professional service providers) are obliged to issue GUs to purchasers of goods and services. For overseas purchases, the required documentation may include commercial invoices, custom duty receipts, import declarations, remittance slips, etc.

Non-deductible items

Expenses and losses incurred that are unrelated to business operations are not deductible for tax purposes. Except for certain expense allowances and provisions, such as depreciation and bad debt, unrealised costs and losses cannot be claimed as deductions for tax purposes. Any deductible allowances and provisions must be recorded on the books in order to qualify for tax deductibility.

Loss carry-forwards

The assessed tax losses of a company may be carried forward for ten years, provided the entity keeps sound accounting records, files a blue tax return, or has its ordinary tax return certified by a Taiwan-licensed CPA and files it on time before the stipulated deadline, both in the year that the losses are incurred and the year the losses are utilised. The carry-back of losses is not allowed.

Special cases

A qualifying maritime transportation company with its head office in Taiwan may elect to have its shipping income taxed under the tonnage tax system, where a lump sum tax is calculated on the net tonnage of its fleet. Once the application is approved, it will be binding for ten consecutive years. Tax loss carry-forwards and tax incentives are not eligible under the tonnage tax system.

Additionally, special tax computation rules apply to non-resident companies engaged in international transportation, construction contracting, provision of technical services, or machinery and equipment leasing in Taiwan, where the costs and expenses relevant to Taiwan-sourced revenues are difficult to allocate and calculate. These aforementioned non-resident companies may apply for prior approval from the tax authority to use the deemed profit method to determine their Taiwan-sourced taxable income as 10% or 15% of gross revenues.

Special provisions also apply to Taiwan-sourced income derived by foreign enterprises providing cross-border electronic services to Taiwanese consumers (including companies and individuals). Depending on the business model and situation of the e-service provider, the costs and expenses incurred can be deducted from gross revenues, or the industry standard profit rate may be used directly, where taxable income can be further reduced via an onshore profit contribution ratio, subject to prior approval from the tax authority.

Withholding tax

In addition to filing a final tax return, certain types of income derived by companies are subject to a withholding tax at source at various set rates, as detailed below. Taiwan resident companies and non-resident companies with a FPOB or business agent in Taiwan are required to declare and report such income received in their annual tax returns.

For foreign companies with no FPOB or business agent in Taiwan, their Taiwan-sourced income will generally be subject to withholding tax. They may appoint a local tax agent to claim for costs and expenses incurred for certain income (based on evidentiary documents), and may also apply for a tax refund within five years of the payment date.

Figure 15: Withholding tax rates for various incomes

Income category	Resident individuals (%)	Resident companies (%)	Non-resident individuals and companies (%)
Dividends	N/A	N/A	21
Salaries and wages	5 ^(a)	N/A	18
Commissions	10	N/A ^(b)	20
Rentals	10	N/A ^(b)	3 ^(c) , 20
Interest	10	10	15, 20 ^(d)
Royalties	10	N/A ^(b)	0, 20 ^(e)
Technical fees	10	N/A	0 ^(f) , 3 ^(g) , 20
Prizes/Awards ^(h)	10, 20	10, 20%	20
Professional fees	10	N/A	20

Notes:

- Alternatively, salaries and wages may be withheld in accordance with the official salary withholding tax table.
- Commissions, rentals and royalties received by resident enterprises that issue GUILs are exempt from withholding tax.
- A 3% rate may apply to rentals of machinery and equipment paid to non-resident taxpayers if pre-approval is obtained from the tax authority.
- A 15% rate applies to interest paid to non-resident taxpayers on short-term bills, securitised certificates, corporate/government/financial institution bonds and interest derived from related repurchase transactions. The rate in all other cases is 20%, unless reduced under a double tax agreement.
- Royalties paid to non-resident taxpayers that are specially approved in advance by the government are exempt from income tax.
- Technical service fees relating to the construction of factories or power plants and approved by the government are exempt from income tax.
- A 3% rate may apply to technical service fees paid to non-resident taxpayers if pre-approval is obtained from the tax authority.
- For prizes or awards obtained from contests or games of chance, the rate is 10% for residents and 20% for non-residents. There is no withholding tax on government-sponsored lottery winning less than or equal to NT\$5,000 per win; withholding tax is 20% on such winning over NT\$5,000 per win.

Double taxation relief

All Taiwan resident companies are taxed on their worldwide income, regardless of where the income is derived from. To mitigate the double taxation of foreign income, a company with foreign-sourced income may credit taxes paid abroad against its Taiwan income tax liability. However, the amount of the tax credit is limited to the incremental tax liability derived from such foreign-sourced income.

International taxation agreements

Taiwan has signed comprehensive double taxation agreements (DTAs) with several countries, which cover corporate and individual income taxes and follow international model tax conventions. At the end of 2019, Taiwan had concluded and ratified a total of 32 DTAs (see the table below) and 13 international transportation income tax agreements.

Taiwan's application guidelines for DTAs place emphasis on the substantive purpose behind cross-border transactions, with only the actual beneficial owner of the income eligible for the preferential tax treatment offered under DTAs.

Taiwan's withholding tax rates on payments of dividends, interest and royalties may be reduced if the recipient is covered by a DTA that provides for a lower rate, as detailed below. The recipient must provide relevant supporting documents for the review and approval of the tax authority.

Also, Taiwan has formal guidance on application of the mutual agreement procedures (MAP) for resolving any cross-border tax disputes arising under its DTAs with other countries. This follows the OECD's standard on tax dispute resolution.

Figure 16: Withholding tax rates under DTAs

Country	Dividends (%)	Interest (%)	Royalties (%)
Non-treaty countries	21	15, 20 ^(a)	0, 20 ^(b)
Australia	10, 15 ^(c)	10	12.5
Austria	10	0, 10 ^(d)	10
Belgium	10	10	10
Canada	10, 15 ^(b)	0, 10 ^(a)	10
Denmark	10	10	10
France	10	10	10
Gambia	10	10	10
Germany	10, 15 ^(e)	0, 10, 15 ^(f)	10
Hungary	10	10	10
India	12.5	10	10
Indonesia	10	10	10
Israel	10	7, 10 ^(g)	10
Italy	10	10	10
Japan	10	0, 10 ^(f)	10
Kiribati	10	10	10
Luxembourg	10, 15 ^(h)	0, 10, 15 ⁽ⁱ⁾	10
Macedonia	10	10	10
Malaysia	12.5	10	10
Netherlands	10	10	10
New Zealand	15	10	10
Paraguay	5	10	10
Poland	10	0, 10 ^(s)	3, 10 ^(t)
Senegal	10	15	12.5
Singapore	40 ^(j)	Not prescribed	15
Slovakia	10	10	5, 10 ^(k)
South Africa	5, 15 ^(j)	10	10
Swaziland (now Eswatini)	10	10	10
Sweden	10	10	10
Switzerland	10, 15 ^(m)	10	10
Thailand	5, 10 ⁽ⁿ⁾	0, 10, 15 ^(o)	10
United Kingdom	10	10	10
Vietnam	15	10	15

Notes:

- a) A 15% rate applies to interest paid to non-resident taxpayers on short-term bills, securitised certificates, corporate/government/ financial institution bonds and interest derived from related repurchase transactions. The rate in all other cases is 20%, unless reduced under a double tax agreement.
- b) Royalties paid to non-residents that are specially approved in advance by the government are exempt from tax. The rate in all other cases is 20%.
- c) A 10% rate applies where dividends are paid to a company (other than a partnership) holding directly at least 25% of the capital of the company paying the dividends. A 15% rate applies to dividends paid in all other cases.
- d) A 0% rate applies to interest paid on loans granted, guaranteed or insured by an approved financial institution of the other territory for the purpose of promoting exports and on all loans between banks; otherwise, the rate is 10%.
- e) The rate on dividends is 10%, except in the case of certain real estate investment companies which are subject to a 15% rate.
- f) A 0% rate applies to interest paid to public institutions of the other territory. A 15% rate applies to interest received by a real estate investment trust or a real estate asset trust; otherwise, the rate is 10%.
- g) A 7% rate applies to interest paid on bank loans; otherwise, the rate is 10%.
- h) A 15% rate applies to dividends where the recipient is a collective investment vehicle in the other territory and treated as a body corporate in that other territory; otherwise, the rate is 10%.
- i) A 0% rate applies to interest on loans between banks; a 15% rate applies where the recipient is a collective investment vehicle in the other territory and treated as a body corporate in the other territory; otherwise, the rate is 10%.
- j) The withholding tax rate on dividends paid to the recipient and the corporate income tax payable on the profits of the investee company may not exceed 40% of the taxable income out of which the dividends are declared.
- k) A 5% rate applies to usage of, or certain right to use industrial, commercial, or scientific equipment; otherwise, the rate is 10%.
- l) A 5% rate applies where dividends are paid to a company holding directly at least 10% of the capital of the company paying the dividends; otherwise, the rate is 15%.
- m) A 10% rate applies where dividends are paid to a company (other than a partnership) holding directly at least 20% of the capital of the company paying the dividends; otherwise the rate is 15%.
- n) A 5% rate applies where dividends are paid to a company holding directly at least 25% of the capital of the company paying the dividends; otherwise, the rate is 10%.
- o) A 0% rate applies to interest paid to the government or the central bank of the other territory. The 10% rate applies to interest received by a financial institution (including an insurance company); otherwise the rate is 15%.
- p) A 10% rate applies where dividends are paid to a company holding directly or indirectly at least 20% of the capital of the company paying the dividends. The 15% rate applies to dividends paid in all other cases.
- q) A 10% rate applies to all types of interests; however, tax exemption applies to certain interests paid to public institutions of the other territory or paid in respect of a loan made, guaranteed or insured by certain institutions.
- r) A 10% rate applies to all types of interests; however, tax exemption applies to certain interests paid to public institutions of the other territory or paid with respect to debt-claims guaranteed, insured or indirectly financed by government institutions.
- s) A 10% rate applies to all types of interests; however, tax exemption applies to certain interests paid to public institutions of the other territory or paid in respect of a loan granted, guaranteed or insured by certain institutions.
- t) A 3% rate applies to royalties paid as a consideration for the use of industrial, commercial, or scientific equipment.

Transfer pricing

Taiwan's transfer pricing regime adheres to arm's length principles for related-party transactions, and the governing regulations are based on OECD's guidelines for multinational companies. Disclosure of related-party transactions in annual income tax returns and preparation of transfer pricing reports are required if certain reporting criteria are met.

Scope and methods

The transfer pricing assessment rules set out the definition of related parties, including direct and indirect control, as well as control over a board of directors. Transactions covered include transfer and use of tangible/intangible property, provision of services, use of funds, and other types of transactions approved by the Ministry of Finance (MOF).

Acceptable transfer pricing methods include the comparable uncontrolled price, comparable uncontrolled transaction, resale price, cost plus, comparable profit and profit split methods, and any other pricing methods approved by the MOF.

Transfer pricing documentation

In response to developments in international anti-tax avoidance and information exchange, Taiwan has adopted OECD's three-tiered transfer pricing documentation structure in its domestic rules. This consists of a local file or transfer pricing report, a master file and a country-by-country (CbC) report.

The local file should be prepared at the time that the corporate tax return is submitted. It does not need to be filed, but must be provided within one month of receiving a request from the tax authority. Companies which have controlled transactions below certain thresholds may replace the transfer pricing report with other evidentiary documents to prove that such transactions are at arm's length.

In addition, from 2017 onwards, companies must also prepare a master file containing information on the global business operations and transfer pricing policies of the groups, amongst others, and a CbC report providing jurisdiction-wide information on specific items in the financial statements and primary activities performed. Safe harbour rules exempt qualifying enterprises from having to follow the master file and CbC reporting requirements.

Advance pricing agreements

An advance pricing agreement (APA) is a binding agreement between a corporate taxpayer and the tax authority regarding the transfer pricing method to be applied to cross-border transactions between affiliated entities. For enterprises conducting large or complex controlled transactions, using an APA can help to mitigate potential transfer pricing risk.

In Taiwan, an APA may be applied for where the aggregate amount of controlled transactions to be covered by the APA is at least NT\$500 million, or the annual amount of such transactions is at least NT\$200 million, among other criteria. In addition, a company may request a pre-filing meeting with the tax authority to help assess the likelihood that it would agree to review a formal APA application.

Qualified applicants should file an APA application before the end of the first fiscal year to be covered by the agreement. The tax authority has to notify an applicant within one month of receiving a formal application on whether it will be further processed.

The prescribed processing time for unilateral APAs is one year, with two extensions of six-months each. There is no set deadline for the processing of bilateral or multilateral APAs. Once signed, an APA is generally valid for three to five years, and an extension of up to five years may be granted.

Audits and penalties

Taiwan's tax authority has stepped up its transfer pricing audits in recent years. Companies having significant or frequent controlled transactions with related parties in so-called tax havens or low tax jurisdictions receive particular scrutiny. The types of transactions targeted include tangible asset and intangible asset transfers (e.g. royalty payments), intra-group services and financial transactions.

Failure to comply with Taiwan's transfer pricing rules may result in additional tax payable and financial penalties. The tax authority can adjust the taxable income of companies whose related-party transactions fall outside arm's-length range. It may also impose penalties for non-compliance with the arm's-length principle and reporting rules.

Other anti-avoidance rules

Taiwan has adopted in recent years several anti-tax avoidance measures as recommended by the OECD, as part of its ongoing global initiative to curb base erosion and profit shifting (BEPS) and to ensure a more transparent tax environment.

Thin capitalisation rules

Profit-seeking enterprises, except financial sector companies, are subject to thin capitalisation rules. Deductible interest expense from inter-company loans is capped at a 3:1 debt-to-equity ratio. Unless safe harbour provisions apply, applicable entities are required to disclose information about related-party debt when filing their corporate tax returns.

Controlled foreign companies

Taiwan enacted in 2016 a new controlled foreign corporation (CFC) provision, but implementation has been postponed, possibly up until 2022. At present, the profits of overseas subsidiaries held by resident companies are not taxed in Taiwan until repatriated as dividends. Under the new CFC regime, qualifying CFC income will be deemed as distributed and taxable prior to actual distribution.

Place of effective management rules

Taiwan also enacted in 2016 a place of effective management provision to determine a company's tax residence, but its implementation too has been delayed. Under the rule, if a foreign company has its place of effective management in Taiwan, it will be deemed as having its head office in Taiwan and hence subject to tax as a resident company.

Common Reporting Standard

The Tax Collection Act was amended in 2017 to provide a legal basis for adoption of the OECD's Common Reporting Standard (CRS) regarding the automatic exchange of information with other tax jurisdictions. Taiwan will implement CRS from 2019, with the first exchange of information in 2020. Also, Taiwan signed in 2016 an agreement with the US to allow financial institutions to register with and disclose to the US tax authority under the US Foreign Account Tax Compliance Act.

Tax incentives

Taiwan offers various tax and non-tax incentives to encourage corporate investment domestically. The principal tax incentives are provided for R&D and innovation-related activities and investments under the Statute for Industrial Innovation (SII), and these are currently valid through the end of 2029.

Income tax credits are available under the SII for qualifying R&D expenditure incurred by Taiwan-based enterprises at their Taiwan facilities. The enterprise must obtain tax authority approval for its R&D projects every year to benefit from this tax credit. If approved, the company can take a credit against its income tax payable for either:

- 15% of total R&D expenditure in the year in which it was incurred, with no carry forward; or
- 10% of R&D expenditure in the year incurred and following two years.

In either case, the tax credit is capped at 30% of the taxpayer's income tax payable for the current year. Once the preferred method to claim the tax credit is elected, no further change is allowed.

In addition, the SII offers various other incentives, including: tax deferrals on intellectual property (IP) contributed to capital and employee share-based compensation; tax deductions for transfers or licensing of self-developed IP; tax breaks for limited partnerships and angel investors; tax credits for investments in smart machinery and 5G system expenditure; and deductions of qualifying investments from the profit retention tax base.

Taiwan also has special tax regimes for specific industries or sectors, such as the biotechnology and new pharmaceuticals industry. Furthermore, certain tax incentives are available to investors in designated locations, including free trade zones. Additional tax incentives are available under the Business Mergers and Acquisitions Act and other laws to encourage M&A and consolidation activity. Certain transfer taxes may be exempted or deferred in qualifying transactions that meet certain criteria.

Tax administration

The tax year in Taiwan runs from 1 January to 31 December. However, businesses may request approval from the local collection office to adopt a non-calendar fiscal year as their taxable period.

Returns

Annual corporate income tax returns are filed on a self-assessment basis, and are due no later than five months after the close of the tax year (that is, on or before the 31st of May for calendar year-end companies). No extensions are allowed.

Companies generally file an ordinary tax return. Those with a record of honest tax filing may, with the prior approval of the tax authority, use a blue return, which affords certain advantages, such as the carry forward of tax losses and a higher tax deduction limit for entertainment-related expenses. Similar benefits are provided to enterprises that have their tax returns certified by licensed CPAs.

Certain entities—including financial institutions, publicly listed companies, and other companies whose annual net revenues and non-operating income exceed NT\$100 million—are required to have their tax returns certified by licensed CPAs.

Group enterprises meeting certain criteria under the Business Mergers and Acquisitions Act and the Financial Holding Company Act may file consolidated tax returns for the Taiwan parent and its first-tier domestic subsidiaries. Group taxation is not permitted for other enterprises.

Payment

CIT is paid in two instalments. The first provisional payment is based on 50% of the preceding year's tax liability and is made in the ninth month of the company's fiscal year. An enterprise using a blue return or filing a CPA-certified return can opt to pay the provisional tax based on its actual taxable income for the first six months of the current fiscal year. The second payment is made at the time the company files its final tax return (that is, on or before 31 May for calendar year-end companies).

Assessments

The return is then reviewed by the tax authority and a final assessment is issued. If this indicates a different amount of tax payable, the taxpayer can opt to pay the tax as assessed or follow the administrative remedy procedures provided under relevant regulations. Additional tax assessments may be made within five years after the tax return filing date, and this can be extended by a further two years in cases of late or fraudulent tax filing.

Penalties

Penalties are imposed for late filing and failure to file a return. The late filing penalty is 10% of the tax payable (capped at NT\$30,000), but it may be increased to 20% (capped at NT\$90,000) if the taxpayer fails to file a return before the stipulated deadline after receiving an official reminder notice.

A late payment penalty of 1% of the unpaid amount calculated every two days (up to 15%) will apply, and late payment interest will begin to accrue 30 days after the payment due date. Underreporting of taxable income is penalised at up to two times the underpaid tax amount, and may be increased to three times the shortfall if a return is not filed.

Rulings

Companies may seek an advance tax ruling from the tax authority to confirm their tax position or to clarify a specific tax issue. The MOF maintains a database at www.mof.gov.tw of all its public tax rulings, which taxpayers can use as guides to help understand how the authority thinks about a topic.

Tax audits

Taiwan does not have a statutory tax audit cycle. An audit can be carried out by the tax authority at any time before the statute of limitation expires. The most common areas challenged or audited include: management fees allocated from the foreign parent company or affiliates; amortisation of business rights and goodwill; eligibility for R&D tax credits; and general compliance in relation to CIT, transfer pricing, as well as withholding tax.



Chapter 6

Personal taxation

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This chapter provides an overview of the principal provisions governing direct taxation of individuals in Taiwan, including international assignees and business travellers. The information is drawn from the annual Taiwan Pocket Tax Book and monthly tax updates issued by PwC Taiwan, which readers can access at www.pwc.tw/en/publications.html.

Individual income tax

In Taiwan, the taxation of individuals is based on their source of income and tax residency status. Individual income tax (IIT) is levied on the Taiwan-sourced income of both resident and non-resident individuals, unless exempt under the Income Tax Act and other laws. The foreign-sourced income of Taiwan tax resident individuals is assessed under a parallel alternative minimum tax (AMT) system.

Tax residence rules

An individual is considered resident in Taiwan for income tax purposes if domiciled and ordinarily resident in Taiwan, or not domiciled but resident in Taiwan for 183 days or more in a taxable year.

A Taiwan national with local household registration is treated as non-resident for income tax purposes if the individual stays in Taiwan for one day or more but less than 31 days within a calendar year, and also their centre of vital interests is not in Taiwan.

A foreign national staying in Taiwan less than 183 days in any calendar year is deemed non-resident for tax purposes. The number of residing days is accumulated if the individual enters and leaves Taiwan at different intervals within a calendar year.

Individual income tax rates

For resident individuals, the amount of Taiwan income tax payable is calculated as a percentage of their net taxable income (after exemptions and deductions), less a "progressive difference" for each tax bracket. Starting from tax year 2018, the applicable IIT rates range from 5% up to 40%.

Non-resident individuals are subject to withholding tax on income received from Taiwan sources at various rates fixed by regulations. A rate of 21% applies on dividends, 18% on wages and salaries, and 20% on commissions, rental income, royalties, professional fees, and prizes or awards. The rate on interest income is generally 20%, but reduces to 15% for interest from certain debt instruments.

Alternative minimum tax

Resident individuals may also be subject to AMT under the Income Basic Tax Act, if their annual basic income (i.e. the sum of regular net taxable income plus certain add-back items) is more than N\$6.7 million, at the current flat rate of 20%. The taxpayer must calculate the amount of AMT due and compare the result with the regular income tax payable. The taxpayer must pay the higher of the AMT or regular income tax payable amounts.

The add-backs include overseas income totalling NT\$1 million or more, certain qualified insurance benefits, income from transactions of privately-placed securities investment trust funds, and any claimed deductions for non-cash donations. Any foreign taxes paid on overseas income may be offset against AMT payable, subject to certain limits.

Figure 17: Individual income tax rates

Net taxable income (NT\$)	Tax rate (%)	Progressive difference (NT\$)
0 – 540,000	5	0
540,001 – 1,210,000	12	37,800
1,210,001 – 2,420,000	20	134,600
2,420,001 – 4,530,000	30	376,600
4,530,001 and above	40	829,600

Taxable personal income

Resident and non-resident individuals are subject to IIT on income earned from work or activities carried out in Taiwan, and other income derived from sources in Taiwan. For resident individuals, the Taiwan-sourced income of the taxpayer's spouse and qualifying dependents must also be included in their total gross income calculation.

Taxable income is classified into ten categories: business income (including dividends and profit distributions); income from professional practice; salaries and wages; interest; rentals and royalties; self-employment income from farming, fishing, animal husbandry, forestry or mining; income from property transactions; prizes or awards from contests, games or lotteries; payments relating to retirement and severance; and other income.

Certain types of income derived by resident and non-resident individuals in Taiwan are subject to withholding tax at source at various rates, based on the residency status of the recipient. For non-residents, the applicable withholding tax rates on dividend, interest and royalty income from sources in Taiwan may be reduced under double taxation agreements with certain countries (see page 45).

Employment income

An individual's employment income is treated as Taiwan-sourced compensation (including base salary, bonuses, allowances and benefits) where the individual performs services while physically located in Taiwan. IIT is levied on gross income from employment and collected by withholding at source if payment is made by a Taiwan entity, or recharged and borne by a domestic enterprise. The applicable rates for salary income are 5% for resident individuals and 18% for non-residents.

Foreign nationals staying in Taiwan for 90 days or less in a calendar year are subject to a 18% withholding tax on salary income received from a Taiwan-registered entity; remuneration received from an entity registered outside of Taiwan is tax exempted. Foreign nationals staying in Taiwan for more than 90 days but less than 183 days in a calendar year are also subject to the 18% tax on remuneration for any work/services rendered in Taiwan, regardless of where the payment is made.

Foreign special professionals

Overseas nationals coming to work in Taiwan for the first time and who qualify as "foreign special professionals" are eligible for preferential tax treatment under the Act for the Recruitment and Employment of Foreign Professionals (in effect since 9 February 2018). For a qualifying foreign individual, 50% of their annual salary income in excess of NT\$3 million will be exempt from IIT for three tax years, starting from their first year of residence (for 183 days or more a year) in Taiwan. The tax benefit may be deferred up to five years.

Employee fringe benefits

In general, all remuneration and fringe benefits received by employees for services rendered in Taiwan are taxable income. Benefits provided by an employer in the form of cash allowances via payroll are taxable regardless of their nature. Also, fringe benefits provided directly by the employer without cash payment are taxable, unless the foreign national employee qualifies for special tax incentives and specific arrangements are made.

Certain assignment-related benefits — such as relocation expenses, company-provided housing, company-provided rental cars, and home-leave travel costs paid for expats — may be excluded from an expatriate employee's taxable income. As the taxation of fringe benefits can often be confusing for international assignees coming to work in Taiwan, feel free to contact PwC's team of mobility specialists for advice on your case.

Capital gains and dividends

In Taiwan, capital gains are generally combined with an individual's taxable income and taxed at IIT rates, unless specifically exempt by law. Gains from the sale of land and buildings are subject to a separate tax regime that first came into effect in 2016. Also, gains from transactions in marketable securities are not subject to Taiwan income tax.

Gains from real estate

A separate income tax applies to the sale of real estate (including land and buildings). However, the old tax treatment of capital gains on property sales still applies to real estate purchased before 2 January 2014, or on or after 2 January 2014 if held more than two years, where only capital gains from the sale of buildings are subject to individual income tax, and land value increment tax (LVIT, see page 63) applies to gains from sales of land.

The new real estate tax regime is applicable to all properties acquired on or after 1 January 2016, as well as those bought on or after 2 January 2014 if held for less than two years. The total taxable gain is the market value of the property less purchase costs, relevant expenses and the incremental net value of the land under LVIT. The applicable tax rate differs depending on the holding period of the property and the residency status of the taxpayer.

For resident individuals, sellers pay a 45% tax on properties held for less than a year, 35% if held for one to two years, 20% for two to ten years, and 15% for more than ten years. A resident individual meeting certain requirements is tax-exempted on property capital gains up to NT\$4 million, and any above that amount are taxed at 10%. Non-resident individuals are subject to a rate of 45% if selling a property within one year of purchase, and at 35% on gains from properties held for more than a year.

For reporting gains from applicable transactions, the seller is required to file relevant returns to the local tax office within 30 days from the date the property ownership is officially transferred to the buyer. Losses realised on property sales are only deductible against gains from property disposals in the same tax year. Any remaining losses may be carried forward for up to three taxable years.

Gains from marketable securities

The introduction in 2013 of a capital gains tax on stock transactions was a controversial issue, and the tax was repealed two years later. Since 2016, individual investors are no longer subject to tax on capital gains from marketable securities, and any capital losses on such transactions are not deductible. A separate securities transaction tax is still applicable to the trading of certain types of qualified securities, at a general rate of 0.3%.

Dividend income

In 2018, Taiwan replaced its dividend imputation tax system with a new dividend tax regime. Now resident individual investors can elect to be taxed in one of two ways regarding dividends received from Taiwan companies. Such income may either be included in taxable personal income and taxed at progressive income tax rates, with 8.5% of the dividend income available as a tax credit (capped at NT\$80,000), or it may be taxed separately at a flat 28% with no tax credit. In addition, dividends received by tax resident individuals from foreign companies may be subject to AMT at a 20% rate.

For non-resident individuals, dividends received from a Taiwan resident company are subject to 21% withholding tax. This rate may be reduced under certain double taxation agreements. Also, from 2019, non-resident shareholders may no longer use the surtax on undistributed earnings as a tax offset against the dividend withholding tax.

Exemptions and deductions

Resident individuals may claim certain exemptions and deductions on income tax returns to arrive at their net taxable income. These include personal exemptions, standard or itemised deductions, and special deductions. Non-residents are not eligible for these personal exemptions and deductions.

Personal exemptions

For 2019 tax returns, the personal exemption is NT\$88,000 for each taxpayer, spouse and each linear ascendant, or NT\$132,000 for those who are 70 years of age or older. Qualified dependents include close relatives over 60 years old, children under the age of 20, children over the age of 20 in full-time education and supported by taxpayer, as well as other relatives aged 20 and over who are disabled or incapable of earning a livelihood.

Standard deduction

Taxpayers may choose to claim either a standard deduction or itemised deductions, whichever is higher for income tax calculation purposes. The amount of the standard deduction for 2019 returns is NT\$120,000 for a single individual taxpayer and NT\$240,000 for a married couple filing together.

Itemised deductions

There is no ceiling on the aggregate of itemised deductions, which currently include the following:

- Charitable donations to Taiwan-registered non-profit organisations, deductible up to 20% of annual gross consolidated income.
- Premiums paid for life and labour insurance, deductible up to NT\$24,000 per person per year. There is no ceiling for NHI premiums.
- Medical and maternity expenses incurred and paid to approved hospitals or clinics are tax deductible less any insurance reimbursement.
- Disaster losses are tax deductible when not compensated by insurance or other subsidies.
- Interest paid on loans for the purchase of an owner-occupied residence in Taiwan is limited to NT\$300,000 per year per filing unit, after less any interest income claimed in the same year.
- Rental expenses for housing in Taiwan are limited to NT\$120,000 per year per filing unit.

Special deductions

Certain special deductions are also available for:

- Losses from property transactions: limited to gains from such transactions in the same year. Losses can be carried forward for three years.
- Salary or wages: taxpayers may elect to use either: i) a fixed deduction of NT\$200,000 per person a year, or total salary income reported, whichever is lower; or ii) a specific expense deduction, based on prescribed categories of items, to calculate their taxable salary income.
- Savings and investment: interest on deposits at financial institutions, among other items, may be deductible up to NT\$270,000 per tax filing unit, or the total reported, whichever is lower.
- Disabled individuals: NT\$200,000 per year for each qualifying disabled or handicap person.
- Educational tuition: up to NT\$25,000 per child if studying at an approved college or university.
- Pre-school children: NT\$120,000 per child aged five or younger per year, but not if the taxpayer meets certain income thresholds.
- Long-term care: NT\$120,000 per qualified person per year, starting from 2019, but not if taxpayer meets certain income thresholds.

Basic living expense deduction

In addition, the Taxpayer Rights Protection Act allows for eligible individual taxpayers to claim a basic living expense deduction for each member in the filing household. The deduction amount for tax year 2019 is set at NT\$175,000 per person.

If the total amount of the basic living expense is higher than the sum of exemptions, standard deduction (or itemised deductions) and special deductions (excluding the deductions for salary or wages and losses from property transactions), the difference can be used as an additional tax deduction from the gross consolidated income.

Tax administration

The tax year in Taiwan for individuals runs from 1 January to 31 December. In general, a taxpayer must file an annual income tax return with the tax authority and pay any tax due between 1 May and 31 May of the subsequent year, with no extension allowed. The taxpayer must include the income, exemptions and deductions of his or her spouse and any claimed dependents in their tax return.

For resident individuals, a consolidated individual income tax return must be filed with respect to Taiwan-sourced income. Married couples are required to file jointly as a household unit if both spouses are resident taxpayers. They may choose to either consolidate all their incomes, consolidate non-salary incomes and separate salary incomes, or separate both salary and non-salary incomes.

For foreign nationals, the return filing requirements depend on their length of stay in Taiwan, as below:

- An individual staying in Taiwan for 90 days or less in a calendar year is not required to file a tax return before leaving Taiwan, unless he or she has Taiwan-sourced income not subject to withholding tax (such as gains on the sale or disposal of assets and from trading activities).
- An individual present in Taiwan for more than 90 days but less than 183 days in a calendar year must file a tax return for the current year before final departure with respect to Taiwan-sourced income, regardless of where it was paid and received, or appoint a tax agent to complete the filing on behalf of the individual.
- An individual who stays in Taiwan for 183 days or more in a calendar year must file an annual income tax for all Taiwan-sourced income by the 31 May deadline. If the taxpayer intends to leave Taiwan and not return in the same year, he or she must file before departure or appoint a tax agent to complete the filing on their behalf.

Payment

In Taiwan, the payment of an individual's income tax liability is required before the actual return is filed. Accordingly, a tax payment receipt must be obtained before filing a return. Tax on employment income is withheld at source by the employer and any additional tax due must be paid at the time of filing before the annual 31 May deadline. The local tax office will only accept a fully paid tax return.

Penalties

In the event of late payment, the taxpayer will be subject to an interest surcharge on any unpaid taxes from the day following the original payment due date to the actual date of tax payment. It is calculated on a daily basis at the rate quoted for postal savings for a one-year fixed deposit.

Also, underreporting of taxable income is subject to a penalty of up to two times the additional tax assessed. The penalty may be increased to three times the additional tax liability amount owed if an income tax return is not filed or it is filed late.



Chapter 7

Indirect & other taxes

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This chapter highlights the indirect and other main taxes imposed on businesses and individuals in Taiwan. The information is drawn from the annual Taiwan Pocket Tax Book and monthly tax updates issued by PwC Taiwan's tax practice, which may be accessed at www.pwc.tw/en/publications.html.

Business tax

Business tax is an indirect tax that is charged on the sale of goods and the provision of services in Taiwan, as well as on goods imported from abroad. It is imposed under two systems: gross business receipts tax (GBRT) and valued-added tax (VAT).

GBRT is applicable to financial institutions, certain restaurants and small business enterprises. The tax is based on their gross business receipts, at rates ranging from 0.1% to 25%. The GBRT rate is 5% for banks and insurance entities, and 2% (core business) or 5% (non-core) for most other financial institutions. A rate of 1% applies to the reinsurance premiums of insurance companies.

VAT is applicable to general industries. The tax is based on the value added to goods or services at each stage of the production and distribution chain. The current standard rate of VAT is 5%, except for certain types of goods or services that are zero-rated or exempt from VAT. The tax on imported goods is 5% of the total dutiable value and customs duty plus other applicable charges.

The general rule is that an input tax credit is only available under the VAT system, with each seller collecting output VAT from the buyer at the time of sale, deducting input VAT paid on purchases from output VAT, and remitting the balance to the tax office. While overpaid VAT is refundable under certain circumstances, business tax paid under the GBRT system, however, is not recoverable.

Zero-rating and exemptions

Certain goods and services are zero-rated (0%) for VAT. These include export-related goods and services; items sold by duty-free shops; goods or services sold to a bonded zone business entity for its operational use; international transportation, as well as vessels and aircraft used in international transport and deep-sea fishing boats, and goods and maintenance services provided to such; and certain goods sold by a bonded zone enterprise.

A total of 32 categories of goods or services are currently exempt from business tax, including the sale of land and medical services, among others. Certain imported goods are also tax exempt. The related input tax is not refundable or deductible for those business entities exclusively engaged in the sale of business tax-exempt goods or services.

Taxpayers

Businesses that sell goods or services in Taiwan are required to pay business tax and issue a government uniform invoice (GUI) to buyers at the time of sale, delivery or receipt of payment, unless exempt from doing so. Printed GUIs are gradually being replaced by electronic ones.

Business tax is also imposed on the consignees or holders of imported goods, and the buyers of services provided by foreign companies with no fixed place of business in Taiwan. However, the service buyer (corporate entity) is not required to pay business tax if exclusively engaged in taxable transactions subject to either 0% or 5% VAT.

Since May 2017, non-resident foreign providers of cross-border electronic services to individuals in Taiwan have to register with the tax authority for VAT if their cross-border e-services annually exceed NT\$480,000. Once registered, they have to file VAT returns and pay any VAT due. Starting 2019, they are also required to issue cloud GUIs.

Filing and payment

A business entity, regardless of whether or not it has sales, must generally file a VAT return every two months by the 15th day of each odd month for the preceding two-month period, and any tax due must be paid at that time the return is filed. A company that qualifies for zero-rated VAT may apply to file its VAT returns on a monthly basis.

The entity's head office and other fixed places of business of the same Taiwan-based enterprise must report their VAT separately to their local tax offices. Subject to certain requirements, approval may be granted for the head office to file a single, consolidated VAT return with the tax authority.

Commodity tax

Commodity tax is a single-stage excise duty and is levied on certain specified goods (including rubber tyres, cement, beverages, flat-glass, oil and gas, electric appliances and vehicles), when manufactured domestically or imported. Some types of commodities may be exempt from the tax under certain conditions. The commodity tax rates vary from 8% to 30% and are applicable to different types of taxable commodities based on their value or volume in specific circumstances.

For domestically-produced goods, the commodity tax is imposed on the local manufacturer when the product is released from the factory. The taxable value is the manufacturer's selling price less the commodity tax included in the price. For imported goods, the taxable value is the total amount of the value subject to customs duty and the duty levied.

Commodity tax is payable by the manufacturers of locally-produced goods, and by the consignees or holders of the bills of lading or holders of imported taxable commodities. Manufacturers are required to file excise tax returns and pay any commodity tax due by the 15th day of the following month on products released from their premises. Importers have to declare taxable commodities and pay the related tax and import duty to the customs office.

Customs duty

Customs duty is levied on all goods imported into Taiwan, except for those items that are exempted by the Customs Act and related regulations, such as goods imported into bonded zones. Taiwan follows the customs valuation rules of the WTO, and uses the Harmonised Commodity Description and Coding System to classify traded products.

Taiwan's tariff schedule has three sets of rates: most-favoured-nation rates that apply to imports from WTO members or other countries that accord reciprocal treatment to Taiwan; preferential rates; and ordinary rates. The overall average nominal tariff rate for imported goods was 6.39% in 2018.

Customs duty is payable by either the consignee of the imported goods, the bearer of the bill of lading, or the holder of the imported goods. The amount of customs duty payable is based on the dutiable value or volume of the goods imported. The dutiable value is generally calculated on the basis of the transaction value, using CIF prices.

The duty-payer must make an import declaration to the customs authorities within 15 days of the arrival date of the goods in Taiwan. Pre-arrival declarations are also acceptable. Importers are required to indicate any related-party transaction information in the declaration forms. Payment of the applicable duty must be made within 14 days of the receipt date of the duty payment request.

Figure 18: Commodity tax rates

Type of commodity	Tax rates/amount
Rubber tyres	10% or 15%
Beverages	8% or 15%
Cement	NT\$280-NT\$600 per tonne
Plate glass	10%
Oil and gas	NT\$110-NT\$6,830 per kilolitre or NT\$690 per tonne
Electrical appliances	10% to 20%
Vehicles	15% to 30%

Land and property taxes

Land value tax

Land value tax (LVT) is imposed on a taxpayer's total land that has been assigned a land value by the relevant local government authority. LVT is levied annually on the assessed value of the land at progressive rates ranging from 1% to 5.5%, or at special rates depending on the use of the land.

House tax

A house tax is charged on all buildings in Taiwan at varying rates, depending on their classification. It is levied annually on the assessed value of the property at a rate of 1.2% to 3.6% for residential properties and 3% to 5% for commercial buildings.

Land value increment tax

The sale of land in Taiwan is currently subject to land value increment tax (LVIT). It is levied on the increase in the government-assessed value of the land during the ownership period, adjusted for inflation, at regular progressive rates ranging from 20% to 40%, or at a special rate of 10%.

Real property transfer tax

A separate tax regime was introduced in 2016 to govern capital gains on the sale of real property. It applies to all properties acquired on or after 1 January 2016, as well as those bought on or after 2 January 2014 if held less than two years. The tax base is the market value of the property less original costs, expenses and the incremental net value of the land under LVIT. The applicable tax rate depends on the holding period of the property as well as the residency status of the taxpayer.

The old tax treatment of gains on property sales still applies to properties bought prior to 2 January 2014, or on or after 2 January 2014 if held more than two years, where only capital gains from the sale of buildings are subject to income tax, while gains arising from land sales are subject to LVIT.

Deed tax

In addition, a deed tax is levied on the transfer of title to the real estate, except where LVIT applies. It is based on the government-assessed value of the property, at rates that range from 2% to 6%.

Estate and gift taxes

Estate and gift taxes are levied on asset transfers from one person to another at death (estate tax) or while the giver is alive (gift tax). These transfer taxes apply to the worldwide assets of Taiwanese-domiciled individuals. If the decedent or donor is deemed to be a non-resident of Taiwan, only those assets located in Taiwan are subject to estate and gift tax. The net taxable estate or gift is currently taxed at progressive rates of 10%, 15% and 20%.

Luxury tax

The specifically selected goods and services tax (or luxury tax) is levied on the sale, manufacture and import of certain goods and services within Taiwan on an ad valorem basis. Taxable items include upscale cars, private jets and helicopters valued at NT\$3 million or more; yachts at least 100 feet long; preserved wildlife products, high-end furniture and non-refundable memberships worth NT\$500,000 or more. These are taxed at a rate of 10% on their selling price or taxable value.

Securities transaction tax

Certain types of qualified securities are subject to a securities transaction tax. A 0.3% rate applies to the sale of shares or share certificates, and 0.1% on the sale of other approved securities. Trading of corporate bonds and financial debentures, as well as the sale of listed exchange-traded funds that mainly invest in bonds, are exempt from the tax until the end of 2026. A futures transaction tax of 0.000125%-0.1% applies to futures trading.

Stamp tax

Certain types of documents drawn up in Taiwan are subject to stamp tax, as follows: 0.4% of the amount received for certain specified monetary receipts, with the exception of 0.1% for money deposited by bidders; NT\$12 per contract for the sale of movable properties; 0.1% of the value of contractual agreements to perform a specific job or task; and 0.1% of the value of contracts for the sale, transfer and sub-division of real estate. In late 2019, the government proposed to abolish the stamp tax, which needs legislative approval.



How PwC can help



Our Taipei office



About PwC Taiwan

Our purpose is to build trust in society and solve important problems. It is this focus which informs the professional services that we provide and the decisions we make. We're a member of the PwC global network of firms in 157 countries with over 276,000 people who are committed to delivering quality in assurance, tax and advisory services.

PwC Taiwan is celebrating its 50th anniversary in 2020, having been established in 1970 under the original name of Chen & Chu. Our firm has since grown in size and strength to become one of the leading professional service providers in Taiwan. We currently have over 3,000 people in six offices who provide industry-focused services to private and public entities of all sizes and backgrounds.

Finding your way in Taiwan

Regardless of scale or experience, entering the Taiwan market for the first time presents an array of options and challenges. It requires much more than just setting up a legal business entity or a registered office overseas. It's also important the practical aspects and long-term implications are addressed so your business plans run smoothly.

Having operated in Taiwan for around 50 years, PwC has long experience of advising inbound international companies and investors on the formalities and complexities of setting up and doing business in Taiwan. We can help you to understand and successfully navigate the key issues involved in establishing a presence here.

In addition to this guide, we produce a wealth of information and publications (in Chinese, English and Japanese) which share our knowledge and insights about the local business and regulatory environment and the issues that organisations face every day in Taiwan. You can access these materials on our local website at www.pwc.tw.

Our services

Our experienced professionals, combined with the resources of our global network, allow us to provide comprehensive help and solutions for a wide range of business needs. Take a look below at the different services we offer and let's talk.

- Audit and assurance services
- BEPS services
- Consulting services
- Crisis management
- Deals
- Digital economy
- Family business services
- Financial sector services
- Health industries services
- Innovation and entrepreneur services
- Legal services
- Mergers and acquisitions
- Multinational business services
- New energy services
- People and organisation services
- Real estate services
- Risk intelligence technology solutions
- Smart manufacturing
- Southeast Asia and India services
- Sustainability and climate change
- Tax services

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