

# **The Implications of Taiwan's Tax Reforms for Foreign- invested Enterprises**

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# Taiwan's Tax Reforms and Foreign Investment



# Key Points of Taiwan's Tax Reforms

Tax Category		Before	After	
Enterprises	Corporate income tax (CIT)	17%	20%	
	Surtax for undistributed earnings (SUE)	10%	5%	
	Withholding tax (WHT) rate on dividend distributed to non-resident shareholders	20% 10% with tax treaties	21% 10% with tax treaties	
Individuals	Individual income tax (IIT)	Maximum IIT rate: 45%	Maximum IIT rate: 40%	
	Deductions and Exemptions	Standard Deduction	NT\$90,000	NT\$120,000
		Special Deduction for Employment Income	NT\$128,000	NT\$200,000
		Special Deduction for Pre-school Children	NT\$25,000	NT\$120,000

Tax Category		New Tax System
Limited Partnership <small>(according to "Statute for Industrial Innovation" amended on Nov. 22, 2017)</small>	Corporate income tax (CIT)	0% (Pass-through Taxation)
	Surtax for undistributed earnings	0% (Pass-through Taxation)

# The Implications of Taiwan's Tax Reforms for Foreign-invested Enterprises

	Tax Category	Before	After
Enterprises	Corporate income tax (CIT)	17%	20%
	Surtax for undistributed earnings (SUE)	10%	5%
	Withholding tax (WHT) rate on dividend distributed to non-resident shareholders	20% 10% with tax treaties	21% 10% with tax treaties
	Overall Effective Tax Rate (ETR)	36.5% 29.04% with tax treaties	39.96% 31.6% with tax treaties

## Tax costs still lower than neighboring countries

- With tax treaties, the effective tax rate of foreign-invested subsidiaries is **31.6%** after tax reform.
- It is still lower than Japan (37%), Mainland China (32.5%).

## Tax or Investment Incentives

- Several tax or investment incentives are available pursuant to legislation such as the Statute for Industrial Innovation and the Biotech & New Pharmaceutical Development Act.
- The effective CIT rate may be reduced to **13 or 14%** in Taiwan.

The taxation environment in Taiwan is still competitive in international society



# The Implications of Taiwan's Tax Reforms for Foreign-invested Enterprises

	Tax Category	Before	After
Enterprises	Corporate income tax (CIT)	17%	20%
	Surtax for undistributed earnings (SUE)	10%	5%
	Withholding tax (WHT) rate on dividend distributed to non-resident shareholders	20% 10% with tax treaties	21% 10% with tax treaties
	overall ETR on undistributed earnings	25.3% 25.3% with tax treaties	24% 24% with tax treaties

**25.3%**



**24%**

Reduce SUE to encourage more investment

The ETR is reduced from 25.3% to 24% if foreign-invested subsidiaries retain annual earnings and reinvest in Taiwan.



Booming Investment Opportunities in Taiwan

- 5+2 Industrial Innovation Program
- Forward-looking Infrastructure Development Program
- At least, **USD 50 billion** business opportunities are created.

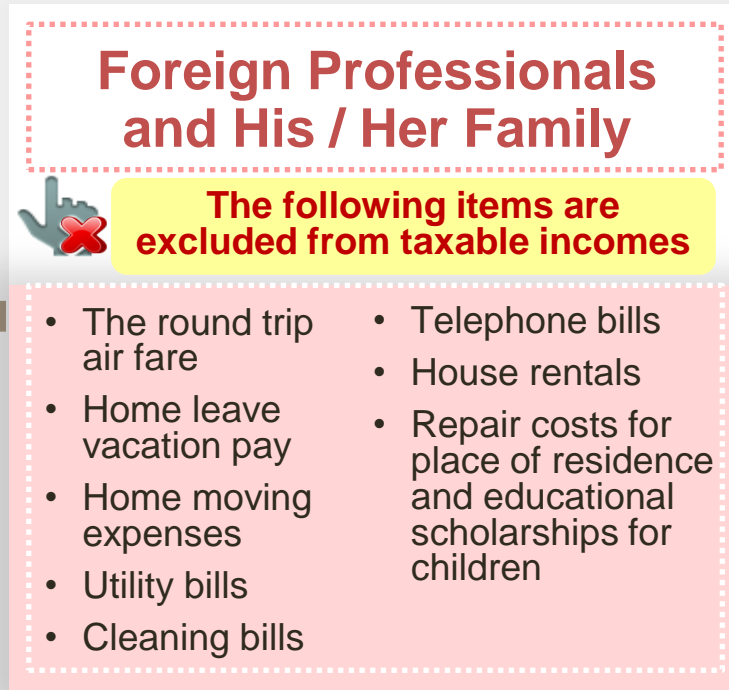
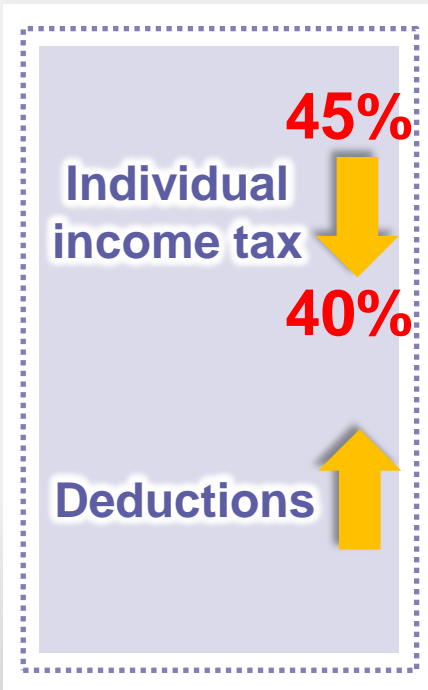


Grasp the key to promote profitability



# The Implications of Taiwan's Tax Reforms for Foreign Professionals

Tax Category		Before	After
Individuals	Individual income tax (IIT)	Maximum IIT rate: 45%	Maximum IIT rate: 40%
	Deductions and Exemptions	Standard Deduction	NT\$90,000
		Special Deduction for Employment Income	NT\$128,000
		Special Deduction for Pre-school Children	NT\$25,000



# The Implications of Taiwan's Tax Reforms for Startup Companies

	Tax Category	New Tax System
Limited Partnership	Corporate income tax (CIT)	0% (Pass-through Taxation)
	Surtax for undistributed earnings (SUE)	0% (Pass-through Taxation)

## Corporate income tax (CIT) Surtax for undistributed earnings



- To develop startup companies, tax incentives are applicable if certain criteria are fulfilled in accordance with the Statute for Industrial Innovation amended on 22 November 2017.
- Venture capital enterprises organized as limited partnerships are not subject to CIT and SUE. The earnings are attributed to investors and subject to income taxes to avoid double taxation. (additional rules for establishment time, exemption period, etc.)



## R&D expenditure tax credit

- Tax credit benefits of R&D expenditure are applicable to foreign-invested companies and limited partnerships to reduce CIT burden.



Creating a  
friendly  
environment  
for startup  
companies





# Conclusions

## General Foreign-invested Enterprises

**Tax costs of retained earnings are reduced. It is beneficial to higher profitability to keep investing in Taiwan.**

- It is beneficial to higher profitability if the retained earnings are kept and reinvested in Taiwan because of tax costs reduction, tax treaties application, and participation in huge business opportunities from “5+2 Industrial Innovation Program” and “Forward-looking Infrastructure Development Program” initiated by Taiwan Government.

## Foreign Professionals and Senior Executives

**Reducing tax burden to have higher quality of life in Taiwan.**

- The highest individual income tax rate is reduced from 45% to 40%. With additional amount of reductions and exemptions, the tax burden for foreign senior executives is mitigated effectively.

## Startup and Venture Capital Enterprises

**To create a friendly developing environment for startup enterprises with more tax incentives**

- Venture capital enterprises organized as limited partnerships are exempted from corporate income tax and surtax for undistributed earnings ◦
- Tax incentives for R&D tax credits to reduce corporate income tax are available.

# Appendix: List of ROC Double Taxation Agreements

Continent	Country / Jurisdiction	Effective Date
Asia	India	2011/08/12
	Indonesia	1996/01/12
	Israel	2009/12/24
	Japan	2016/06/13
	Malaysia	1999/02/26
	Singapore	1982/01/01
	Thailand	2012/12/19
	Vietnam	1998/05/06
Oceania	Australia	1996/10/11
	Kiribati	2014/06/23
	New Zealand	1997/12/05
Africa	Gambia	1998/11/04
	Senegal	2004/09/10
	South Africa	1996/09/12
	Swaziland	1999/02/09

Continent	Country / Jurisdiction	Effective Date
Europe	Austria	2014/12/20
	Belgium	2005/12/14
	Denmark	2005/12/23
	France	2011/01/01
	Germany	2012/11/07
	Hungary	2010/12/29
	Italy	2015/12/31
	Luxembourg	2014/07/25
	Macedonia	1999/06/09
	Netherlands	2001/05/16
	Poland	2016/12/30
	Slovakia	2011/09/24
	Sweden	2004/11/24
	Switzerland	2011/12/13
	United Kingdom	2002/12/23
America	Canada	2016/12/19
	Paraguay	2010/06/03