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Comparison on Method of Filling Tax Returns for Profit Seeking Entities

1. Audit by Reviewing Declaration on Tax Returns Expanding to the Cases Qualified for the Standards Issued by the Ministry of Finance (MOF)

Audit by Reviewing Declaration on Tax Returns Expanding to the Cases Qualified for the Standards Issued by the Ministry of Finance (MOF) is suitable for any Profit Seeking Enterprise whose annual total income are not greater than NT$ 30 million. Due to incomplete accounting records and to avoid the auditing review by the tax authority, even if the net profit rate is lower than the Standards Issued by the Ministry of Finance when the completed company internal settlement, the company still agrees to adjust the net profit rate to the Tax Returns Expanding to the Cases Qualified for the Standards Issued by the Ministry of Finance (MOF) for the tax returns. (for example, the net profit rate on accounting record is 2% and the agreed and declared net profit rate is 6%).

Pros:

(1) Applying this tax return method is only required a written review, the chance of being investigated and tax audited by the MOF is relatively low, and the random inspection rate of cases is about 10%.

(2) Cost saving for the company as the company will only require having a Certified Bookkeeper and a tax associate to get the filing done, it does not need to deal with delicate accounting records.

Cons:

(1) Taxes must be paid. However, since this method is restricted to company with total income under NT$ 30 million, the maximum amount of tax to be paid is limited.

(2) When the company was subjected to be tax audited by the tax authority, there is a risk of being fined due to books of accounts are not properly kept, and the amount is much higher than the amount of tax that should be paid in accordance with the regulation tax returns.

(3) As the company’s financial position was not tied with the accounts summited to the tax authority, if a new venture needs new investors to join, the potential investor may not be able to accept the company has two sets of accounts, it might affect the company expansion.

Remarks:

(1) For enterprises who have selected above mentioned tax filing method shall make sure all documents that had been provided to your associated bookkeeper is well booked and entered instead of a rough calculation to meet the qualified net profit margin. Some unscrupulous firms attract customers with lower service fees, but they only adjust the business tax declaration amount and then directly enter the book at the written net profit rate, but all receipts and vouchers given are completely lost.

(2) The enterprise shall also be alert that all documents provided to the associates are return in-tac with the books of account after the tax filing in case the tax authority would initiate a tax audit. However, some firms did not stick the receipts on the back of the vouchers every year after entering the accounts and did not print out the account books. The only thing returned to the client was the purchase input receipts. This situation cannot be checked at all in the future.

2. Ordinary Tax Filing

The Company who have selected Ordinary Tax Filing shall fill up their tax form to be submitted based on the profits that the Company generated in the year of assessment. This method would require the Company to prepare a whole set of accounts in a proper manner. If it is randomly checked by the tax authority in the future, since the accounts are published honestly, it can also withstand the audit by the tax authority.

Pros:

(1) The tax returns can be verified. The enterprise will not be subjected to tax if losses had incurred for the year.

(2) No certified public accountants shall be required to be in the tax filing team.

Cons:

(1) Enterprise books of accounts shall be prepared in a proper manner in case the tax authority would like to perform tax audit. If the accounting associates are not familiar with the tax regulation, the company may need to pay supplementary taxes due to negligence.

(2) If the company account record is in a loss, it will not be able to enjoy the loss deduction against profits for the next ten years. The company must have a certified public accountant for filing returns in the tax year, in order to enjoy the loss deduction against profits for the next ten years.

3. Tax Filing with Audited Report

A tax filing with audited report shall be done with appointment a certified public accountant to perform an audit on the tax report by every May of the year of assessment. The Certified Public Accounted will be auditing the company's books of accounts and tax report thereon signed off and submit to the MOF.

To perform a tax report signing off, the company may acknowledge that this shall be prepared:-

(1) A proper sets of accounts with compliance of ROC GAAP shall be prepared.
(2) All income and expenses invoices are properly documented.
(3) Accounting and tax report are prepared annually.
(4) Internal controls policies are well established.

Pros:
(1) Probable tax saving advantages due to professional CPA onboard.
(2) Higher tolerance by the MOF of having high entertainment expenses incurred in the books
(3) Tax loss credit are available to offset future 10 years profits.
(4) With CPA onboard could avoid miscommunication and misinterpretation on the additional information required when the tax audit is performed by the MOF which might cost tax penalty.

Cons: The company may cost annual subscription fee to keep the CPA onboard.

In summary, Kaizen recommends that for a smaller scaled company and maintained lower annual revenue and incomplete accounting records, an audit by Reviewing Declaration on Tax Returns Expanding to the Cases Qualified for the Standards Issued by the Ministry of Finance (MOF) can be adopted. For the larger scale of company, higher turnover with complete accounts and vouchers, and the company hired a responsible and experienced accounting associate shall use the Ordinary Tax Filing. On the other hand, for enterprise that have retained annual turnover above NT$ 100 million, Tax Filing with Audited Report is enforced by-Law. Moreover, if the company is registered, but is still in preparation for the establishment of the factory and has not yet operated and has no operating income, it is recommended that no need to prepare the audit report by the certified public accountant.

There is a saying, wool comes from the sheep's back. After the opening of the bookkeeper's license, the price of bookkeeping has dropped lower and lower. Price war in between accountancy service provider had been dramatically happening. When a client asks about price of the bookkeeping service fee, it is important to note that if the firm only asks " Do you want to submit the tax returns in audit by Reviewing Declaration on Tax Returns Expanding to the Cases Qualified for the Standards Issued by the Ministry of Finance (MOF)?" and provide a very preferential quotation, it is actually very unreasonable. A large-scale account firm has heavy fixed expenses, such as office rent, salary, software maintenance, etc., and each account associate has his own customer and responds to customer questions professionally. If the charge for bookkeeping is very low, the firm may need to accept a large number of customers in order to maintain operations. Therefore, please remember the truth that wool is on the sheep, Kaizen warmly remind to all profits seeking enterprise owners, professional service worth a cost.

If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.kaizencpa.com or contact us through the following and talk to our professionals:

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