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Guide to Taiwan Profit-Seeking Enterprise Income Tax

1. Introduction

The Profit-seeking Enterprise Income Tax is the income tax levied by the Taiwan government on the surplus of Taiwan's profit-seeking enterprise, and the nature of it is similar to Enterprise Income Tax in China. The taxpayers includes corporate legal persons, and sole proprietorship, partnership, company (including a Taiwan branch of a foreign company), and any other form of organization that operates for profit-seeking purposes through a fixed place of business, regardless of whether the enterprise is owned by the government, private sector, or jointly by the government and the private sector. The taxable income of profit-seeking enterprise is the net income after deducting various expenditures, losses and taxes from their total income.

2. Tax Base and Tax Rate

A profit-seeking enterprise in the form of a sole proprietorship, partnership, or company (including a subsidiary that is wholly owned by a foreign company or a joint venture company) is subject to profit-seeking enterprise income tax on its worldwide income. The taxable income of a company for purposes of the profit-seeking enterprise income tax is gross income (including exempt income), less all allowable expenses and losses. A foreign tax credit is available for income tax paid in other countries on income derived from outside Taiwan. The credit may be used to offset the foreign tax paid against the enterprise's Taiwan income tax liability, but the credit may not exceed the tax liability that would result if the foreign-source income is added to the Taiwan taxable income and taxed at the applicable domestic rate.

A profit-seeking enterprise whose head office is outside Taiwan (such as a foreign company and a Taiwan branch of a foreign company) is considered non-resident for tax purposes and is subject to profit-seeking enterprise income tax only on its Taiwan-source income.

The minimum taxable income, tax brackets, and tax rates for profit-seeking enterprise income tax purposes are as follows:

| Minimum Taxable Income, Tax Brackets, and Tax Rates for Profit-Seeking Enterprise Income Tax | |
|---|--|
| Taxable Income Bracket (NTD) | Tax Rate |
| Up to 120,000 | None |
| Over 120,000 | 17% of total taxable income, but income tax liability may not exceed 50% of the portion of taxable income over NTD 120,000 |

3. Exempt Income

The following categories of income are exempt from profit-seeking enterprise income tax:

- (1) Income derived from the sale of land.
- (2) Income from securities transaction, as well as income from futures transactions under the Futures Transaction Tax Act (tax on such transactions is temporarily suspended and losses incurred on such transactions are not deductible in computing taxable income).
- (3) Business income derived from the operation in Taiwan of a foreign enterprise engaged in international transportation, provided reciprocal treatment is granted by the counterparty foreign country to a Taiwan international transportation enterprise operating in its territory.
- (4) Royalty paid to a foreign enterprise for the use of its patent rights, trademarks, and/or various kinds of special licensed rights in order to introduce new production technology or products, improve product quality, or reduce production cost under the approval of the competent authority as a special case.
- (5) Remuneration paid to a foreign enterprise for technical services provided for the construction of a production facility for an important manufacturing enterprise, as determined and approved by the competent authority.
- (6) Interest on loans granted to the Taiwan government or legal entities in Taiwan by a foreign government or an international financial institution for economic development.
- (7) Interest on loans granted by foreign financial institutions to legal entities in Taiwan to finance important economic construction projects approved by the MOF.
- (8) Interest derived from preferential-rate export loans offered to, or guaranteed for, legal entities in Taiwan by foreign government institutions and foreign financial institutions that specialize in offering such loans or guarantees.
- (9) Net dividends or net surplus earnings received by a profit-seeking enterprise organized as a company from an investment in another domestic profit-seeking enterprise.

4. Deductible Expenses/Costs

Costs and expenses incurred by an enterprise in carrying out its main and auxiliary activities may be deducted up to certain limits provided the taxpayer has sufficient supporting documentation.

- (1) Depreciation

Taiwan allows the following methods of depreciation of fixed assets: the straight-line method, fixed percentage on diminishing book value method, sum-of-the-year's-digits method, units-of-output method, working-hour method, and other methods approved by the competent authorities.

For income tax purposes, the service life of fixed assets for depreciation purposes may not be less than that prescribed in the Table of Service Life of Fixed Assets. Depreciation generally is calculated based on the purchase price of the depreciable asset.

(2) Bad Debts

An allowance for doubtful accounts must be provided for accounts receivable and notes receivable. The allowance may not exceed 1% of the outstanding balance of total accounts and notes receivable. For financial institutions, the allowance may not exceed 1% of the outstanding balance of credit.

If projected bad debts qualified to be written off exceed the above limit, the taxpayer may set aside as an allowance the average of its actual bad debts incurred in the three preceding years.

5. Tax Loss Carryovers

Tax losses may be carried forward for 10 years. Specifically, where a profit-seeking enterprise organized as a company (including a Taiwan branch of a foreign company) keeps a complete set of accounting books and files a “Blue Return” (a tax form printed on blue paper and designed to encourage a profit-seeking enterprise to accurately report its income) in the years in which the losses were incurred and in the years in which the losses were declared, or where the losses are duly certified by a public accountant and declared within the prescribed period, the tax losses may be carried forward for 10 years. The carryback of losses is not permitted.

6. Alternative Minimum Tax

Taiwan requires the calculation of a separate Alternative Minimum Tax (AMT) in accordance with the Income Basic Tax Act. A profit-seeking enterprise with a fixed place of business or business agent in Taiwan is subject to a separate AMT calculation if it earns certain income that is tax-exempt or that enjoys certain tax incentives under the ITA or other laws, or if the basic income of the enterprise exceeds NTD500,000. If the AMT as calculated exceeds the profit-seeking enterprise income tax after deducting investment tax credits, the enterprise must pay the difference. AMT is calculated as follows:

$$\text{AMT} = [\text{Taxable income} + \text{transaction income on securities and futures} + \text{exemption income} - \text{NTD 500,000}] \times 12\%$$

7. Fiscal Year and Return Filing

(1) Fiscal Year

The fiscal year commences on January 1 and ends on December 31. A profit-seeking enterprise may elect to adopt a special fiscal year at the time it is established and can change its fiscal year with approval from the tax authorities.

(2) Annual Tax Return and Undistributed Profits Return of the Previous Year

An annual income tax return must be filed between May 1 and May 31 covering the income of the preceding tax (calendar) year to the tax authority they belonged to. If the headquarter of the profit-seeking enterprise is located in Taiwan, and it should also declare the 5% of undistributed retained profits from the previous fiscal year.

The annual tax return will report an enterprise's operating revenue, expenses, gross margin, costs, net profits, and non-operating income or losses. An enterprise must attach to its annual return a balance sheet and a statement of any changes in its imputed tax credit account for the preceding year and retained earnings as calculated in accordance with the ITA.

A profit-seeking enterprise whose fiscal year is different from the calendar year must file the return on or before the last day of the fifth month after the close of the fiscal year. For example, if the fiscal year of the entity is from 1 April to 31 March, the temporary tax return should be filed from 1 August to 31 August.

(3) Provisional Tax Return

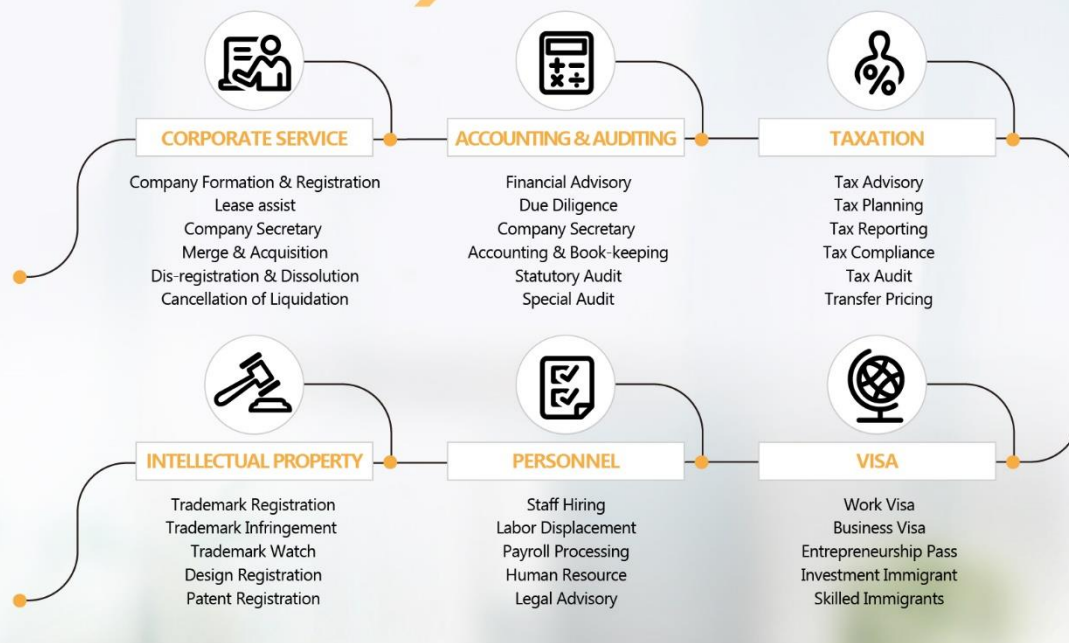
A profit-seeking enterprise also must file a declaration for the provisional payment of tax on a prescribed form and make a provisional payment in the ninth month of the fiscal year. The provisional tax is equal to 50% of the amount of tax payable as shown in the previous year's tax return.

A profit-seeking enterprise organized as a company (including a Taiwan branch of a foreign company) that keeps a complete set of account books under the tax rules, uses the Blue Return, or entrusts a certified public accountant to examine and certify its provisional tax return, and files the return within the prescribed period may compute the provisional tax payment based on the operating income derived in the first six months of the current year under the relevant regulations and at the applicable tax rates.

Profit-seeking entities that use special fiscal years can compute their provisional tax payment according to the calendar year and file their return eight months after the first month of the special fiscal year (e.g. for a fiscal year beginning in April, the provisional tax return would be filed between 1 December and 31 December).

*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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