



YOUTH INTERNATIONAL

Doing Business in Taiwan

Guidebook

Audrey Lin, CPA



TABLE OF CONTENTS

1.INTRODUCTION

2.ABOUT YOUTH INTERNATIONAL

3.ESTABLISHING THE BUSINESS ENTITY

4.TAX INFORMATION

5.ACCOUNTING INFORMATION

6.LABOR INFORMATION

INTRODUCTION

Welcome to the Youth International “Doing Business in Taiwan” guidebook.

This guide provides a quick reference for those interested in investing in Taiwan.

This guide aims to answer some of the key questions to do business in Taiwan and usually be raised by foreign investors or entities.

The guidebook will cover four main topics as follows:

- Establishing the business entity
- Tax information
- Accounting information
- Labor regulations

ABOUT YOUTH INTERNATIONAL

Youth is founded by Wei Ju (Audrey) LIN C.P.A. in 2018. We are committed to serving companies with expertise in advisory services; with innovative solutions, thoroughness, integrity, in a timely manner; we can assist our clients to be placed in a position of strength.

Our team is composed of experienced professionals offering a comprehensive range of services that caters to each stage of a business' growth. In the past twenty years when Youth is not founded, Audrey has provided a wide range of company registration, auditing, bookkeeping, tax compliance, payroll outsourcing and tax filing services for many clients under different business structures. With this regard, our firm also has extensive experience in valuation, damage measurement, and investigative services. These include, but are not limited to: merge and acquisition, business negotiation, strategic planning, business valuation, corporation reorganization, and corporate governance.

Ever since the opening of cross-strait economics, Audrey has serviced hundreds of Taiwanese businesses operating in China. When Taiwan opened its doors to Chinese investments. In order to provide a full range of business advisory services to leading global, national, and local companies, our firm has signed strategic alliances with accounting firms in Japan, Hong Kong, Singapore, Malaysia, Philippines, Korea, and Mainland China. We have several outstanding CPAs working together to solve your problems, fulfill your needs and can assist to build a better future.

Our main Contact is Audrey Lin, CPA.

Email: audrey.lin@youth-cpa.com.tw (O) +886-22517-1885*20 (F)+886-2517-1895
(M)+886-931260996

Web: www.youth-cpa.com.tw

ESTABLISHING THE BUSINESS ENTITY

Taiwan provides various types of business entities. An enterprise's choice of business entity in Taiwan impacts its tax treatment, as well as, its structure and formation requirements.

For foreign investors, there are 4 most common forms of business types include:

- **limited companies**
- **limited by shares companies**
- **branch office of a foreign entity**
- **representative office of a foreign entity**

Limited companies

A limited company is organized by one or more shareholders. Each shareholder is liable to the company up to the amount of capital that they have contributed to the company.

Owners of a limited company are shareholders/ members. The company must complete business registration with the local government under Business Registration Law and tax registration with the local tax office. No minimum registered capital requirement to establish a limited company as far as the paid in capital can cover the incorporation cost. Registered capital should be paid into the company bank account and certified by a local CPA.

Companies limited by shares

A company limited by shares is a company organised by at least two individual shareholders or one government or corporate shareholder. Shareholders may include individuals, corporations and foreign entities. The capital of the company is divided into shares, and each shareholder is liable for the amount equal to the total value of their shares. Shareholders have limited personal liability for the debts and actions of entities. 3 directors and 1 supervisor are requested in order to set up companies limited by shares. For corporate shareholders who are prescribed in the Article

of Incorporation for no board of directors setup, then there could be 1 or 2 directors. No minimum registered capital requirement to establish a limited company as far as the paid in capital can cover the incorporation cost. Registered capital should be paid into the company bank account and certified by a local CPA.

Branch offices

A branch office is a profit-seeking business entity established in Taiwan for the purpose of doing business that has a head office located in a foreign country. The branch office can perform most of the business activities same as companies can do.

No minimum working capital requirement to establish a branch office as far as the first injecting fund can cover the operation cost for branch office setup. A foreign company establishing a branch office must appoint a representative for legal and non-legal matters in Taiwan as well as a branch manager for managing day-to-day business operations.

A branch office is subject to income tax liability on the incomes generated within Taiwan. Also, no 5% surtax on undistributed earnings or the after-tax surplus earnings to the parent company are tax exempt because these distributions are not considered dividends in Taiwan.

Representative Offices

A representative office is one the easiest ways for an enterprise to establish a legal business presence in Taiwan. Many foreign companies choose to operate in this form during the early development stages of investing in Taiwan, if no sales/services activities are involved.

Only businesses recognized as legally established companies in a foreign country are

allowed to establish representative offices in Taiwan. A representative office basically is a legal agent of the foreign company that is permitted to hire employees, engage in price negotiations, provide quotations, participate in tenders and sign procurement agreements. However, a representative office is NOT permitted to engage in income-generating

business activities, such as signing sales contracts, providing services or receiving funds from clients.

Representative offices are not subject to corporate income tax or sales tax but may be required to file withholding tax statements by 31 January of each year.

A summary of legal and tax requirement of the common business entities are showed in the below table:

Comparison of Business Entities in Taiwan			
	Company (Company Limited by Shares/Limited Company)	Branch Office of a Foreign Company	Representative Office
Permitted activities	General trading, sales and manufacturing, etc.	General trading, domestic sales and manufacturing, etc.	Legal acts and liaison activities (no sales activities allowed)
Profit-Seeking Enterprise Income Tax	Required, 20% of corporate income tax rate applied over NT\$120,000	Required, 20% of corporate income tax rate applied over NT\$120,000	Not applicable
Business with taxable income of NT\$500,000 or less	Income Tax rate: 20%	Income Tax rate: 20%	Not applicable
Profit remittance tax	Withholding tax of 21% and the 5% surtax paid by the company on its undistributed profits	None	Not applicable
VAT (sales tax)	Required. 5% of sales tax	Required. 5% of sales tax	Not applicable
Shareholder/head office liabilities	Shareholders are liable to the extent of their capital contribution to the company	Foreign head office is liable for any liabilities unsettled by the branch	Not applicable
Shareholder requirements	Limited by shares: Must have at least 1 corporate shareholder or 2 individual shareholders Limited company: at least 1 individual or corporate shareholders. All shareholders may be foreign nationals residing outside Taiwan	Not required to have shareholders	Not required
Director requirements	Limited by shares: Must have at least 3 directors. For corporate shareholder: who prescribed in the Articles of Incorporation for no board of directors setup, then could be 1 or 2 directors Limited company: at least 1 director. All directors can be foreign nationals residing outside Taiwan	Not required	Not required

Supervisor requirements	Limited by shares: Must have at least 1 supervisor. For corporate shareholder who prescribed in the Articles of Incorporation, it could no requirement to setup supervisor Limited company: no requirement At least 1 supervisor shall have a domicile within Taiwan	Not required	Not required
Minimum capital requirements or minimum operating capital requirements of branch	No minimum capital requirement, but incorporation cost can be covered.	No minimum capital requirement, but incorporation cost can be covered.	Not required
Sources of capital contribution	Initial operating capital must be an inward remittance from the offshore head office. Subsequent injected capital may be made through offshore head office remittance or by capitalization of company's retained earnings	Initial operating capital must be an inward remittance from the offshore head office. Subsequent operating capital may be made through offshore head office remittance or by capitalization of the branch's retained earnings	Not applicable
Time needed to setup	5-6 weeks	3-4 weeks	2-3 weeks
Filing of annual income tax return	Required	Required	Not required
Withholding tax on salaries, rental income, professional's fees, etc.	Required	Required	Required
Allocation of administrative expenses by parent/head office	The charges will be subject to a 20% withholding tax. Whether the charges are tax-deductible will depend on whether the subsidiary can provide adequate documentation to the tax office	Expenses are allocable to the branch and deductible if certain criteria are met	Not applicable
Keeping of account books	Required	Required	Required
Liquidation upon dissolution	Required	Required	Not required
Purchase of real property and automobiles in the name of subsidiary/branch/representative	Permitted	Permitted	Not permitted

TAX INFORMATION

Four main national taxes are introduced below including (a) corporate income tax; (b) withholding tax; (c) value added tax (business/sales tax) and (d) individual income tax for foreigners

(a) Corporate income tax

Where Taiwan companies with its head office located in Taiwan, the worldwide income of the entire enterprise shall be subject to

corporate income tax. However, the enterprise has already paid any income tax on its foreign sources incomes, such foreign income tax will be credited against its total corporate income tax upon submission by the taxpayer of evidence of tax payment for the same year issued by the tax authority of the source country. Where a branch office of head office is located outside Taiwan, corporate income tax shall be levied on the

part of the business profits derived from operating within Taiwan. Taxable income of a profit seeking enterprise is net income, which is defined as gross annual revenue after deduction of costs and expenses, losses and taxes.

Trading profits and other income of resident companies and branches are taxed at the corporate tax rate. The current corporate tax rate is 20%. The following table reflects the income tax rates:

<i>Taxable Income (NT\$)</i>	<i>Tax Rate (%)</i>
120,000 or less	0
Over 120,000*	20

*the amount of tax payable shall not exceed half of the amount of the taxable income in excess of NT\$120,000.

For businesses with taxable income of NT\$500,000 or less, the income tax rate will be 20%.

Enterprises shall, within the period from 1st May to 31st May of each year, file a tax return

to report their annual profit, and file a report regarding its undistributed earnings for the year before the last year. There are 5% surtax on undistributed earnings and usually 21% withholding tax on distributed earnings to foreign shareholders located in the countries without tax treaty with Taiwan, but the rule is not extended to the branch office.

The enterprises should make a provisional payment to the Treasury within the month commencing 1st September to 30th September with the amount equivalent to half of the enterprise income tax payable reported on the income tax return filed in the May for the previous income year.

(b) Withholding tax

Withholding tax rates are different for residents, non-residents, individuals or profit-seeking enterprises at the source by the taxpayers of salaries, interest, rentals, royalties, commissions, awards or prizes in contests or lotteries and practitioners' fees.

Below is a summary of the tax withholding requirements for all types of income:

Type of Income	Withholding Rates	
	Profit-seeking enterprise with a fixed place of business	Profit-seeking enterprise with no fixed place of business
Dividends	-	21%
Commissions	10%	20%
Interests	<ul style="list-style-type: none"> • 10%; • 10%, to be withheld from ordinary income on interest from short-term commercial papers; • 10%, to be withheld from ordinary income on interest from securities issued under the Financial Asset Securitization Act and the Real Estate Securitization Act; • 10%, to be withheld on interest from government bonds, corporate bonds and financial 	<ul style="list-style-type: none"> • 20%; • 15%, to be taxed on interest from the portion of the pecuniary amount realized by short-term commercial papers at their maturity in excess of the selling price at their initial issuance; • 15%, to be taxed on interest from securities issued under the Financial Asset Securitization Act or the Real Estate Securitization Act; • 15%, to be taxed on interest from government bonds, corporate bonds or financial bonds; • (4) 15%, to be taxed on interest from repo (RP/RS) trade of the aforesaid bonds, securities or short-term commercial papers which shall be the net amount of the sale price at their maturity in excess of the original purchase price.
Rents	10%	20%

Royalties	10%	20%
Awards or prizes obtained from participating in contests, games or lotteries, etc.	10% 20%, if the prize received from lotteries sponsored by the government in the case that the prize exceeds NT\$2,000 per ticket	20% None, in the case that the prize received is from lotteries sponsored by the government and is NT\$2,000 or less per ticket
Income derived from property transactions	None, but the gain should be included on the annual income tax return	20% of the reported amount
Income derived from international transportation, construction projects, furnishing of technical services and leasing of equipment by a foreign profit-seeking enterprise that has been approved by the MOF to fix a rate deemed as profit according to Article 25 of the Income Tax Act	None, but the gain should be declared on the annual income tax return	20% of the deemed profits which are calculated by multiplying the ROC-sourced revenue with a fixed rate as stated below: <ul style="list-style-type: none"> • 10%, international transportation • 15%, other contracted projects
Income derived by a foreign motion picture enterprise that has been approved to fix a rate deemed as profit according to Article 26 of the Income Tax Act	None, but the gain should be reported on the annual income tax return	20%
Other Income	None, but the gain should be reported on the annual income tax return	20%

(c) Value added tax (VAT)

Generally, VAT applies when goods are sold and when services are rendered in the territory of the ROC, as well as when goods are imported into the territory of the ROC. The current standard rate of VAT is 5%. This rate applies unless the tax rate for special taxation or a zero rate or exemption applies.

A VAT invoice must be presented in NT\$ and in Chinese. Profit-seeking enterprises (such as manufacturers, wholesalers, retailers, etc) collect VAT and are required to remit net VAT taxes collected from customers in sales and file VAT returns.

Business entities must file VAT returns every two months from 1st to 15th of the odd month either on VAT return forms or electronically.

The VAT calculation for standard taxation is as follow:

- VAT payable
= exceeding output VAT over input VAT
- VAT overpaid
= exceeding input VAT over output VAT

The tax authority will not return any other overpaid VAT and will retain such amount for offset of VAT owed in subsequent VAT taxable

periods.

However, the authority will refund overpaid VAT in the following situations:

- VAT is overpaid due to the zero tax rate
- VAT is overpaid due on the acquiring of fix assets, or
- VAT is overpaid at the time of business consolidation, dissolution and buyout.

A zero tax rate applies to the following goods and services:

- the export of goods
- services provided for export or services supplied in Taiwan but utilized in foreign countries
- sales by duty-free shops to persons who do not enter into the territory of the ROC
- sales of equipment, materials and semi-products to companies in exportation zone, industrial parks and bonded factories or bonded warehouses
- international transportation
- ships and aircrafts used for international transportation and deep sea fishing boats, and

- sales of goods and maintenance services to vessels and aircraft used for international transportation and deep sea fishing boats.
- Goods sold by a bonded zone business entity to a taxable zone business entity and exported directly without being transported to the taxable zone.
- Goods sold by a bonded zone business entity to a taxable zone business entity for export and placed in a bonded warehouse or logistics center administered by an enterprise inside a free trade zone or by Customs.

(d) Individual Income tax for Foreigners

Taxpayer Status

1. Non-resident
 - a. Stayed in Taiwan for 90 days or less in a calendar year: tax exempted on salary income derived from services performed in Taiwan but paid offshore without a recharge. In a case when payment is made in Taiwan or with a recharge to Taiwan entity, non-resident could be tax exempted provided that these salary incomes are adequately withheld. Given all Taiwan-sourced incomes are exempted or adequately withheld, income tax return filing obligation could be relieved.
 - b. Stayed in Taiwan for more than 90 days but less than 183 days: Income tax rate at 18% for income in nature of salary, and at 20% for most income in other nature.
2. Resident- Stayed in Taiwan for 183 days or more: must file income tax return based on progressive rates (from 0%~40%). Exemptions and deductions are granted.

Tax Period Determination

- Calendar year base- January 1st to December 31st
- The entry day to the country is not included in the tax period, but the departure day is counted when calculating individual's physical presence days in Taiwan during a calendar year.

Additional Information

1. For a non-resident staying in Taiwan more than 90 days, individual income tax is required to be filed and paid, prior to the last departure from Taiwan or within the period from 1st May to 31st May of the tax filing year. The individual income tax must be declared and computed based on his or her earnings received in Taiwan and pro rata of remuneration received from foreign employer.
2. Whether individual income tax paid in Taiwan can be deductible in native country depends on income tax regulations in native country.
3. The required documentation for remuneration received from foreign employer during the days staying in Taiwan should be a certificate of remuneration issued by the foreign tax authorities concerning the foreign employer. If a certificate from the tax authorities is not available, a notarized certificate issued by a CPA in the same foreign country of the employer is also acceptable. In that case, a photocopy of the CPA license must also be submitted.

ACCOUNTING INFORMATION

Accounting Principles

Taiwan companies currently follow IFRS or Accounting Standards for Enterprises to complete their financial statements. Listed companies, financial institutions and unlisted public companies will be required to adopt IFRS. Nonpublic companies will adopt Enterprise Accounting Standards which are similar to IFRS-SME.

Audit requirement

(1) Financial audit

A Taiwan company with paid-in capital to or exceeding NTD30 millions, the annual operating revenue is exceeding NTD100 millions, or employees are more than 100 people must have a statutory audit financial report. If a company has a bank loan more than NTD30 millions, the bank may also request to have a financial audit report.

(2) Tax Audit

Also, in the case where a company which keeps sound accounting records, files blue returns, or entrusts a Taiwan certified public accountant(CPA) to certify and file a return on its behalf in both of the loss and reporting years and duly files a tax

return within the time limit, the net losses incurred during the preceding 10 years can be deducted from the net profits for the current year.

Where a company with net sales and non-operating income over NTD100 millions, it will be strongly suggested to have a tax audit on income tax return by local CPA.

Accounting period

Without applying for an accounting period change with tax authority, the accounting period is usually started on January 1st and ends on December 31st of the same year.

Preservation of Accounting Records

According to the Business Accounting Law, a taxpayer must keep all accounting vouchers for at least five years and all books including journals, ledgers and financial statements for at least ten years. Taxpayers may keep books and the financial statements electronically; however, they must keep accounting vouchers in document format only.

LABOR INFORMATION

Basic Work Condition

Generally, the working hour may not exceed eight hours a day and 40 hours within a week; 30 minute break shall entitle to workers for every 4 hour working period. The employer is statutorily requested to maintain an attendance record up to 5 years. Overtime is limited to 4 working hours a day, 54 hours a month or 138 hours every 3 months. Statutory minimum level of pay is currently TWD28,590 per month or TWD190 per hour. Employees are usually allowed to have public holidays announced by the government and leave in accordance to labor laws. When company policies have better offers than Taiwan labor

regulations, employees are eligible for better offers.

Social Welfare

The employer should apply mandatory social welfare including labor insurance, health insurance and pension for each employee based on every employee's salary level. The mandatory pension is at least 6% contributed by employers based on every employee's salary level and paid monthly through every employee's individual pension accounts via the government's mandatory system until employee's retirement or the end of employmentship with the company.

The statutory leaves are summarized as below:

Leave Type	Description		Details
Public Leave	Required by the government, legal regulations.		To be determined by actual requirements
Occupational sick Leave	1. Disability, injury, or sickness on account of occupational accident 2. Disability, injury, or sickness happened on the way to work or on the way to home from work		During the period of medical treatment or recuperation.
Personal Leave	In the event of matters which a worker must personally deal with		No more than 14 days in one year
Funeral Leave	On the death of 1. Parent, foster-parent, step-parent, spouse 2. Grand-parent, son or daughter, parent of spouse, foster-parent or step-parent of spouse 3. Brother or sister, grand-parent of spouse		1. 8 Days 2. 6 Days 3. 3 days
Ordinary Sick Leave	Ordinary injury, sickness, or physical reasons		1. Non-hospitalized – not exceeding 30 days in a year 2. Hospitalized – not exceeding 1 year The total of hospitalized and non-hospitalized sick leave shall not exceed one year
Menstruation Leave	Female in menstrual period		1/2 days per 30 days period plus 3 additional days
Wedding Leave	Getting married		8 days
Pregnancy Check Leave	Pregnancy check before childbirth		7 days
Maternity Leave	Childbirth		Before and after childbirth for a combined period of 8 weeks
	Miscarriage	Pregnancy for 3 months or more	4 weeks
	Miscarriage	Pregnancy for 2 months or more and less than 3 months Pregnancy for less than 2 months	1 week 5 days
Paternity Leave	Wife in birth		7 days
Annual Leave	6 months 1 year employment 2 year employment 3 – 4 years employment 5 – 9 years employment 10+ years employment		3 days 7 days 10 days 14 days 15 days One additional day with pay for each year after 10 years up to 30 days
Menstrual leave	Female employee having difficulties in performing her work during menstruation period.		1 day each month plus 3 additional days a year
Unpaid Parental leave	1. After being in service for 6 months. 2. Apply for non-pay parental leaves before any of their children reach the age of 3 years old.		The period of this leave is until their children reach the age of 3 years old but cannot exceed 2 years and not less than six months each time)

		When employees are raising over two children at the same time, the period of their parental leave shall be computed aggregately and the maximum period shall be limited to two years in which the youngest child raising has received.
--	--	--

Other labor regulations:

Recruitment and Contract	
Probationary Period	None, once hired, a worker are treated as official employee
Termination Notice Period	<ol style="list-style-type: none"> 1. Where a worker has continuously worked for three months or longer but less than one year, the notice shall be given 10 days in advance. 2. Where a worker has continuously worked for one year or longer but less than three years, the notice shall be given 20 days in advance. 3. Where a worker has continuously worked for three years or longer, the notice shall be given 30 days in advance. <p>After receiving the advance notice referred to in the preceding paragraph, a worker may, during hours of work, as for leave of absence for the purpose of finding a new job. Such leave of absence may not exceed two work days per week. Wages shall be paid during such leave of absence.</p> <p>Where an employer terminates the contract without serving an advance notice within the time limit prescribed in Labor Standard Law, he shall pay the worker wages for the advance notice period.</p>
Remuneration	
Bonus	Depending on the company's policy or individual's performance
Months of salary payment	Guaranteed 12 months only. Additional salary is depending on each individual's working contract.
Social Coverage	
Payment of salary after accident or sickness	<p>An employer shall pay compensation to a worker who is injured, sick, incapacitated or deceased owing to an occupational accident on the following scale.</p> <ol style="list-style-type: none"> 1. When a worker is injured or has occupational disease, the employer shall compensate him for the necessary medical expenses. The kind of occupational diseases compensable and the sphere of medical service shall be determined by pertinent provisions of the Labor Insurance Law. 2. When a worker under medical treatment is not able to work, the employer shall pay him compensation according to his original wage rate. But after two years of medical treatment the worker has not recovered, and the designated hospital has definitely recognized that he has lost his original ability to work, but that he has not fulfilled the conditions referred to in the subparagraph. 3. For the entitlement of disability benefit, the employer may pay him a lump sum allowance of 40 months average wage, and be exempted from further responsibilities of wage compensation.
Life insurance	Optional
Labor Insurance	Employers are required to pay for partial labor insurance premium. Please refer to the labor insurance charts for each salary level for employer's liable premium amounts.
Health Insurance	Employers are required to pay for a partial health insurance premium. Please refer to the health insurance charts for each salary level for employer's liable premium amounts.

Pension	It is required that an employer should contribute at least 6% of each employee's earnings level.
Accident Insurance	Included in labor insurance scheme
Disability Insurance	Included in labor insurance scheme
Indemnities	
Termination Indemnities, notice periods, severance pay	<p>Termination indemnity is required if the employee is involuntarily terminated by the employer under following situations.</p> <ol style="list-style-type: none"> 1. The business ceases to operate or has been transferred. 2. The business suffers an operating loss or contraction. 3. Business suspension for more than one month is necessitated by force majeure. 4. Where the change of the nature of business necessitates the reduction of workforce and the terminated employees cannot be reassigned to other suitable positions. 5. A particular worker is clearly not able to perform satisfactorily the duties required of the position held. <p>The severance pay formula: (the average monthly salary of last 6 months) x (half of the service period in year base)</p>