

**DOING
BUSINESS
IN**

TAIWAN



HLB

Candor Taiwan CPA[®]

*doing business
in Taiwan*

foreword

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about HLB International

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general information

Territory Currently Under The Jurisdiction Of The Republic Of China (ROC):

Taiwan Area: Taiwan Island, Penghu Islands, Green Island, Lanyu Island and the Tiaoyutai Islands, with a total area of 36,000 square kilometers.

Kinmen and Matsu Area: Kinmen Islands and Matsu Islands.

Climate

Generally speaking, Taiwan remains warm throughout the year, with spring and winter seeing greater temperature variations than autumn and summer. The average annual temperature for Taiwan is 22°C (71.6°F), with the average lowest temperature hovering around 12-17°C (54 - 63°F). Spring in Taiwan (March-May) often brings prolonged precipitation, the result of nearby stationary fronts. Summer time (June-August) sees the occasional typhoon, while in autumn (September-November) the weather tends to be at its most pleasant, bringing days that are both sunny and cool. Taiwan has a short winter (December-February), with occasional cold fronts bringing snow to the high mountain ranges.

Population

The population of the Taiwan area and Fujian area under ROC jurisdiction was 23,133,000 according to a census conducted in April 2010. The population density was 639.19 people per square kilometer at that time. The ratio of males to females was 1:0.97.

Currency

The official currency of Taiwan is the New Taiwan Dollar, commonly known as NTD. In the market, a managed floating exchange rate system is used to control the NTD.

Language

The common language of most of the people of Taiwan today is Mandarin Chinese; other major languages are Hokkien (Southern Fujianese), Hakka, and aborigine languages. English is the most widely used foreign language; the government is promoting the development of a bilingual environment, and, to meet the educational needs of the new century, English is taught in schools from the elementary school level.

Government

The five main arms of the Taiwanese Governance structure are: the Executive Yuan, the Legislative Yuan, the Judicial Yuan, the Examination Yuan, and the Control Yuan.

The chief executive of the Taiwanese government is the President. A term of office is four years. The President cannot be elected to office more than twice. The members of the cabinet, appointed by the President, form the Executive Yuan.

Legal System

The Supreme court and other district courts located throughout Taiwan exercise the judicial power of the Taiwanese government. The Supreme Court is the court of last appeal. However, business problems and disputes between individuals or between individuals and companies are solved through litigation in administrative courts based on civil law. The Supreme Administrative Court is the court of last appeal for administrative litigation.

Macroeconomic Conditions

In 2010 Taiwan's GDP stood at US\$430.45 billion, while per capita GDP was at US\$18,603. At US\$350.71 billion, Taiwan had the fourth largest foreign exchange reserves in the world. For the 2010 fiscal year, Taiwan's exports amounted to US\$274.64 billion, while total imports came to US\$251.40 billion, ranking 16th and 17th in the world, respectively.

Economic Indicators:

GDP	US\$430.45 billion
GDP per Capita	US\$18,603
GDP Growth	10.82%
Exports	US\$274.64 billion
Imports	US\$251.40 billion
Foreign Exchange Reserves	US\$350.71 billion
Consumer Price Index Annual Increase	0.96%

Source: Directorate General of Budget, Accounting, and Statistics, Executive Yuan. Data as of 2010 fiscal year.

Low Taxation Investment Environment

Taiwan provides an investment environment of low taxation. The ratio of government tax revenue to GNP is lower than 14%, which is lower than Japan, South Korea, and most of the developed European and American countries. According to Forbes Tax Misery Index 2009, Taiwan is 8th least miserable country in the world, only second to Hong Kong in Asia. In recent years, Taiwan has launched taxation reforms to lower tax rates and simplify the taxation system. The tax rate for profit-seeking enterprises income tax was reduced to 17% from 25%. Taiwan will also become the lowest tax rate country in Asia like Hong Kong. Taiwan has signed with many countries agreements for the avoidance of double taxation. As of January 2011, Taiwan has signed tax treaties with 20 countries, and 14 treaties on air and sea transportation income tax exemption.

International Organisations

Taiwan is a member of two international organisations under the name, Chinese Taipei:

Asia-Pacific Economic Cooperation (APEC) – APEC was established to facilitate better trade and economic cooperation among Asia-Pacific economies. Taiwan joined APEC in November 1991.

World Trade Organisation (WTO) – As a small trading nation, Taiwan strongly supports an open, rule-based multilateral trading system under the WTO. Taiwan joined the WTO in January 1, 2002.

Transportation

Taiwan has a complete round-the-island railway network, making rail transportation highly convenient. The high-speed railway, which came into service in 2007, significantly shortens travel time between north and south Taiwan. Taiwan's highway system forms an extensive network of convenient transportation routes, and the island is also developing urban mass rapid transit systems. With regard to air transportation, Taiwan currently has four international airports (located in Taipei city, Taoyuan County in the north and the suburbs of Kaohsiung in the south, as well as Taichung in central Taiwan) as well as domestic airports in Taipei, Taichung, Hualien, Taitung, Chiayi, Tainan, Pingtung, Hengchun, and the off-shore islands of Kinmen, Matsu, the Penghus, Orchid Island, and Green Island.

Other Information

Taiwan is eight hours ahead of Greenwich Mean Time (GMT +8). Business hours are usually 08.30 – 17.30 (GMT +8), Monday to Friday. The international dialing code for telephone calls to Taiwan is +886.

investment factors

Government incentives

Preferential Taxes

The ROC (Taiwan) Government enacted the Industrial Innovation Act in 2010 to develop a favorable environment for foreign and overseas Chinese investors in Taiwan and to encourage investment by foreign companies for the purpose of upgrading the ROC's industrial base.

R&D Subsidies

15% of a company's R&D expenditures may be claimed as a deductible expense against the current fiscal year's business income tax payable; however, the amount may not exceed 30% of the current year's total business income tax payable.

Importing Machinery Not Manufactured Domestically

Imported machinery of a kind not yet manufactured domestically may enjoy tariff-free treatment.

Income Tax Exemption On Licensee Fees Paid Overseas

A company that imports new production technology or products from abroad that also uses the patent, trademark, or other special right owned by a foreign profit-seeking business may, with special approval by the Industrial Development Bureau of the Ministry of Economic Affairs, enjoy tax exemption on the licensee fees paid to the foreign profit-seeking business.

Low-Interest Loans

Loans For Promoting Industrial Research And Development

Eligible industries and purpose: Enterprises that may apply include Internet businesses, manufacturers, technological service providers, culture and creative firms, and logistics and transportation companies.

Amount of loans: up to 80% of total expenses of the approved plan, with a maximum amount of NT\$65 million per loan.

Preferential Loans For Distribution Services And Food And Beverage Industries

Eligible industries: wholesale, retail, food and beverage, and distribution (excluding passenger transportation).

Lending Quota: May not exceed 80% of the amount to be invested in the application plan, with the total amount not to exceed NT\$100 million.

Investment With Government Participation Scope Of Investment By Development Fund

- » The focus is on the IT, communications technology, aerospace, biotech, semiconductor, flat-panel display, and digital content industries.
- » Investment projects for domestic SMEs.

Investment Ceiling

Publicly-held shares are not to exceed 49%.

Banking

In Taiwan, the government's leading agency for the administration, supervision, and inspection of the banking and financial sector is the Financial Supervisory Commission (FSC), Executive Yuan. In general, financial institutions are divided into two main categories—deposit-taking monetary institutions and other financial institutions. The former include Taiwan's regular banks, small and medium enterprise banks, Taiwan branches of foreign banks, credit cooperatives, and the credit departments of farmers' and fishermen's associations. The latter consists of the Dept. of Savings and Remittances of Chunghua Post Co., Ltd., investment and trust companies, and insurance companies.

Foreign Exchange Controls

Taiwan's management of foreign exchange is based on the operation of the free market, so that capital passes in and out of the country with considerable freedom.

Currently, inward and outward remittances of purely foreign denominated capital that do not involve the conversion of the New Taiwan Dollar are fully free. Inward and outward remittances of foreign-denominated capital (including direct investment and investment in securities) that do involve the conversion of the New Taiwan Dollar, relate to the payment for goods and services, and are approved by the competent authorities are also entirely free, though there are a few regulations in place for the following kinds of inward and outward remittances in order to maintain the foreign exchange stability of the New Taiwan Dollar:

» A company or firm that converts not more than US\$50 million cumulatively in one year may do so directly through a bank; if it converts more than that, its bank must obtain approval first from the Central Bank.

» An individual or association that converts not more than US\$5 million cumulatively in one year may do so directly through a bank; if the amount exceeds that, the bank must obtain approval first from the Central Bank.

» A non-resident who converts not more than US\$100,000 in a single transaction may do so directly through a bank; if the amount exceeds that, the bank must obtain approval first from the Central Bank.

Declaration Of Foreign Exchange

Receipts and disbursements or transactions of foreign currency of value equal to or more than NT\$500,000 should be declared.

Employment Regulations

Wages

Wages are set jointly by labor and management, and may not be lower than the monthly basic wage (NT\$17,280).

Work Permits

Employers who wish to hire foreign nationals to come and work in Taiwan are required to first apply to the Council of Labor Affairs to obtain a work permit for the foreign nationals they wish to hire. A work permit application form must be submitted in Chinese and requires recent passport photos of the person and supporting documentation such as photocopies of the candidate's CV, passport (picture page), employment contract, health certificate from a pre-approved hospital, proof of education, and proof of previous work experience. Please note that certified Chinese translations are usually required for all foreign-language documents. The work permit application review process takes approximately two weeks. Once the application is approved, the work permit – a formal government-issued letter of approval – is sent by registered mail to the employer. The letter, which serves as proof of permission for the prospective employee to undertake employment in Taiwan, is required for the resident visa application.

Visas

After receiving a work permit, the prospective employee should apply for a resident visa. If they have arrived in Taiwan with a Visitor's Visa, they may change their visa status without departing Taiwan by applying at the Bureau of Consular Affairs at the Ministry of Foreign Affairs in Taipei, Taichung or Kaohsiung. If they are not in Taiwan, they must apply for a Resident Visa at the nearest Taiwan representative office. If they have entered under the Visa Waiver Program or received a Landing Visa, they must depart Taiwan to apply for a Resident Visa.

Alien Resident Certificates

After receiving a resident visa and entering Taiwan, foreign nationals are then required to apply for an Alien Resident Certificate with the foreign affairs police under the National Police Administration of the Ministry of Interior.

Foreign Nationals With Resident Status In Taiwan

Different rules apply for the hiring of foreign nationals with resident status in Taiwan. For example, foreign nationals who are married to ROC (Taiwan) nationals and have obtained legal resident status are permitted to work in Taiwan without having to apply for a work permit. As for permanent residency holders, they may apply for an "open" work permit directly to the Council of Labor Affairs and do not need to apply for a work permit through their employer.

Staff welfare

Labor Insurance

» Labor Insurance premiums are calculated as a certain percentage of the insured person's monthly income. At present the maximum insured monthly salary is set at NT\$43,900 (the minimum is NT\$17,880). At that salary, the percentage is 7% (which includes 1% for Employment Insurance), and of that amount, 70% is borne by the employer, 20% by the insured person, and 10% by the government.

» Depending on the level of occupational hazard in each industrial category, the employer is also required to pay premiums for insurance against occupational accidents, calculated at 0.07% to 2.99% of the insured monthly salary.

National Health Insurance

The premium rate for National Health Insurance is set at 5.17% of the insured monthly salary, which ranges between a minimum of NT\$17,880 and a maximum of NT\$182,000; 60% of the premium is borne by the employer, 30% by the insured, and the remaining 10% by the government.

Retirement pensions

In the new retirement system, the rate of contribution by an employer to the Labor Pension Fund may not be less than 6% of the worker's monthly wages. The current maximum insured monthly salary is NT\$150,000. The worker may also voluntarily contribute up to 6% of monthly wages to his or her pension fund account.

types of business organisations

There are three types of holding structures of establishments for foreign companies in Taiwan: a representative office, a branch office and a subsidiary company.

Representative Office

A representative office only generates liaison work for the company. A business transaction is not actually involved with this type of establishment. What a representative office does is to sign contracts and investigate markets. There is no income tax payable for its operation in Taiwan. However, basic tax filing, such as employees' personal income tax and the administration fee, is still required.

Branch Office

A branch office, on the other hand, is involved with business transactions, and compared to representative office, the procedure for its establishment is more complex. Since there are business transactions involved, your company will have to pay income tax.

Subsidiary

Compared to a branch office, a subsidiary company is an independent company, which is separate from its parent company. It is a corporate organisation and it has its stockholders in Taiwan. Moreover, the formation procedures are the most complex among these three types of operation.

Strategic Choice

A foreign company should strategically choose to set up a branch or a subsidiary company by comparing the income tax rates of the country of the parent company and Taiwan. If the income tax rate in the parent country is greater than the tax rate in Taiwan, then a subsidiary should be established. On the other hand, if the income tax rate in the parent country is lower than the tax rate in Taiwan, then a branch office should be established instead.

It is unchangeable once the representative office, branch or subsidiary company is set up. Therefore, please consider what operation your company is going to generate in Taiwan before you start the process. E.g.: to have a branch in Taiwan at the beginning and subsequently close it and then open a subsidiary.

For income tax reporting, it is necessary to support the computation by a set of audited financial statements. Therefore, general accounting and auditing are still needed.

There is no capital limitation to setting up a limited company by guarantee or limited company by shares. For newly set up companies, NT \$1 of government fee is required for every \$4,000 of capital (minimum charge NT\$1,000)

Statute for Investment by Foreign Nationals

Definition of investment:

- (1) Holding shares issued by an ROC (Taiwan) company, or contributing to the capital of an ROC company.
- (2) Establishing a proprietary business or a partnership in the territory of the Republic of China.
- (3) Providing loans to invested businesses referred to in the preceding two categories for a period exceeding one year.

Kinds of investment

- (1) Cash
- (2) Machinery and equipment or raw materials for own use
- (3) Patent rights, trademark rights, copyrights, technical know-how, or other intellectual property rights
- (4) Other property which an investor may invest under approval from the competent authority

Prohibited or Restricted Investment Areas

Investors are prohibited from investing in industries that may negatively affect national security, public order, good customs and practices, or national health, and those that are prohibited by law. Investors who apply to invest in an industry in which investment is restricted by law or by an order given under the applicable law, need to obtain approval or consent from the competent authority in charge of the industry in question. Restricted and prohibited investment areas are stipulated in the Negative List for Investment by Overseas Chinese and Foreign Nationals, which was drafted by the Executive Yuan based on the principles in the above two categories. Some examples of the prohibited industries are chemical material manufacturing, land transportation, radio and television broadcasting, and recreational services. Restricted industries include agriculture and animal husbandry, fishing, electric power supply, gas supply, water

supply, telecommunications, financing and auxiliary financing, legal and accounting services, and educational services.

For a complete list of prohibited and restricted investment areas, please check out the Negative List for Investment by Overseas Chinese and Foreign Nationals at: <http://www.idic.gov.tw/html/elaw-3.htm>

auditing

There are three kinds of audit assurance in Taiwan: audits of financial statements, audits of income tax filing, and audits of capital.

An external statutory audit of the financial statements of a company is required where:

- The company is publicly listed; or
- The capital of the company is above NTD 30 million; or
- Loan credits; or
- Others.

An audit of an income tax filing is prepared for the National Tax Administration of the Ministry of Finance. It is a requirement for a company with revenue above NTD 100 million. Tax assurance is also of advantage to other companies. For example, losses can be carried forward to offset earnings in the upcoming ten years in order to reduce income tax payable during the years of earnings. In addition, there is a lower chance that a government audit of the company's income. Nevertheless, with an audit of income tax filing, the company can have higher amount on limit of expense.

Capital assurance is required when setting up a new company or for an increase/decrease in capital or working capital.

taxation

Fiscal Year

The tax year for both individuals and companies runs from January 1 to December 31. However, companies may also choose to have their fiscal year consisting of 12 months and ending on the last day of any month.

General Structure

The ROC's (Taiwan) current tax items include national taxes, special municipality taxes, and county and city taxes.

Corporate Taxation

Business Tax (VAT)

Business tax is assessed in accordance with law whenever goods or services are sold or goods imported within the territory of the ROC.

There are three different VAT rates:

- 5% tax for manufacturing industries
- 2% tax for banks, insurance companies, trust companies, securities firms, futures companies, bills and finance companies, and pawn brokerages.
- 1% tax for small-scale businesses and businesses which the Ministry of Finance has deemed as exempt from reporting total revenues.

Profit-Seeking Enterprises Income Tax

Those profit-seeking enterprises with a general headquarters within ROC territory shall pay consolidated profit-seeking-enterprise income tax on the income of all profit-seeking enterprises within and outside the ROC. Those profit-seeking enterprises with a general headquarters outside the ROC

shall pay tax on only their ROC source income. If a foreign tax credit is available for income tax paid in other countries on income derived outside Taiwan, the credit may not exceed the incremental tax liability that would result if the foreign-source income were added to the Taiwan taxable income and taxed at the applicable domestic rate. For profit-seeking enterprises, the income taxes rate is 17% from 2010.

Personal Taxation

All foreign residents with "ROC source income" shall pay consolidated income tax in accordance with law on the basis of their ROC source income.

The entire income of individuals is taxable:

- if they have a tax domicile in Taiwan, or
- if their income is earned in Taiwan, or
- if they are salaried employees in Taiwan (except for income exempted by international agreement).

For resident, earned income (wages/salaries, benefits and pensions) is subject to national taxation. National income tax is progressive, the scale ranging from 0% to 40%. In addition to income tax, individuals in employment are liable for social security payments, which consist of occupational pension, unemployment and health insurance contributions.

Tax rates for consolidated individual income tax are as follows:

Net Taxable Income (NT dollars)	X Tax Rate	- Progressive Difference
0-500,000	X 5%	-0
500,001-	X 12%	-35,000
1,130,000-	X 20%	-125,400
2,260,001-	X 30%	-351,400
4,230,001-	X 40%	-774,400

The above progressive tax rates are applicable to residents in the ROC only.

Non-residents

- Stay of not more than 90 days
If a foreign national stays within ROC territory for not more than 90 days within one tax year, then any wage that he or she receives from an overseas employer is not considered as ROC sourced income. However, if he or she receives payment of wages from an employer in the ROC, then 18% of the wages are withheld for the income tax. He or she is not obligated to file a tax return but also may not claim tax exemptions and deductions.
- Stay of more than 90 days but less than 183 days
If a foreign national stays within ROC territory for more than 90 but less than 183 days within one tax year and is not a resident of the ROC, then any wage that he or she receives from an overseas employer is considered as ROC sourced income.

If a foreign national earns wages and salary from an overseas employer for work performed within ROC territory, the income is considered ROC sourced income; the foreign national is then required to file income tax and pay at the 18% tax rate (with no tax exemptions or deductions). If a foreign national earns wages and salary from an employer within the ROC, and if that employer deducts the 18% income tax at the time of payment, then the foreign national does not need to file income tax.

Alternative Minimum Tax

Effective, January 1, 2006, the Alternative Minimum Tax has been implemented in Taiwan with tax rates of 10% for profit-seeking enterprises on income above \$2 million and 20% for individuals on income above \$6 million.

Other Taxes

Securities transaction tax: A securities transactions tax is assessed whenever negotiable securities are sold. However, in accordance with law, corporate bonds, financial bonds, and bonds issued by any level of government are exempt from securities transaction tax.

Futures transaction tax: A futures transaction tax is assessed on all those who engage in stock price index future, stock price index future option, or stock price option transactions within the territory of the ROC.
Stamp tax: A stamp tax is assessed on various taxable receipts and deeds within the territory of the ROC in accordance with the Basic Documentation Act.

Estate tax and Gift tax: An estate tax is assessed on the value of all properties of a deceased and a gift tax is assessed on the value of all properties less one million being given out by one person within a calendar year, in accordance with the Estate and Gift Tax Act.

Excise tax: An excise tax is assessed on all taxable goods in accordance with the Excise Tax Statute, regardless of whether the goods were manufactured domestically or imported from overseas.

Wine and tobacco tax: A wine and tobacco tax is assessed on all alcoholic beverages and tobacco in accordance with the Wine and Tobacco Tax Act, regardless of whether the items were produced domestically or imported from overseas.

Tax Agreements

Starting from 2010, for non-residents receiving dividends, (regardless if approval was secured previous to the event or not), interest, or royalties originating in Taiwan, the withholding agent shall withhold 20% tax at the time of payment. For citizens of countries that have signed a tax agreement with Taiwan, the withholding rate on dividends, interest, and royalties shall be 5-15%.

* The tax shall not exceed an amount which together with the corporate income tax payable on the profits of the company paying the dividends constitutes 40% of that part of the taxable income out of which the dividends are declared.

Table of Withholding Rates for Countries with which the ROC has signed Tax Agreements

Countries\ Income Items	Dividends	Interest	Royalties
Non-treaty Countries	20	15,20	20
Australia	10,15	10	12.5
Belgium	10	10	10
Denmark	10	10	10
France	10	10	10
Gambia	10	10	10
Hungary	10	10	10
India	12.5	10	10
Indonesia	10	10	10
Israel	10	7,10	10
Macedonia	10	10	10
Malaysia	12.5	10	10
New Zealand	15	10	10
Netherlands	10	10	10
Paraguay	5	10	10
Senegal	10	15	12.5
Singapore	40*	Unspecified	15
Slovakia	10	10	5,10
South Africa	5,15	10	10
Sweden	10	10	10
Swaziland	10	10	10
UK	10	10	10
Vietnam	15	10	15

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