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Global Tax Alert

Taiwan issues tax credit regulations for investments in smart machines and fifth-generation wireless technology

Taiwan's Ministry of Economic Affairs (the MOEA) and Ministry of Finance jointly issued regulations (the Regulations), on 24 October 2019, clarifying the scope of qualifying expenditure and application that were introduced as tax incentives for investments in smart machines and fifth-generation mobile networks (5G networks)[1] in Article 10-1 of the *Statute of Industrial Innovation* on 3 July 2019.

This Alert summarizes the key aspects of the Regulations.

Smart machine investments

Qualified investments include expenditures on brand new hardware, software, technology or technical services related to smart machines, incurred from 1 January 2019 to 31 December 2021.

5G network investments

Qualifying investments include expenditures on brand new hardware, software, technology or technical services related to 5G networks incurred from 1 January 2019 to 31 December 2022.

Tax incentive

Taxpayers[2] must elect one of the following tax credits in each qualifying year:[3]

- Tax credits of up to 5% of expenditure, creditable against corporate income tax (CIT) liability in the year incurred
- Tax credits of up to 3% of expenditure, creditable against CIT liability claimable within the current and subsequent two-year period[4]

The tax credit claimed cannot exceed 30% of the CIT liability in any year.

If a company or limited partnership[5] is also eligible for other types of investment credits,[6] the total combined credit claimed should not exceed 50% of the CIT liability for that year, unless an exception applies under other laws/regulations.[7]

Application process

Taxpayers are required to file an application and evidence of the qualified expenditure through an online system provided by the MOEA, prior to the CIT filing due date.

Endnotes

1. "Smart machines" refer to machines using intelligent technology elements embodied in big data, artificial intelligence, the internet of things, robots, lean management, digital management, clicks and mortar, additive manufacturing or sensors, and having intelligent functions of production data visualization, fault prediction, accuracy compensation, automatic parameter setting, automatic control, automatic scheduling, application service software, flexible production, or mixed-model production. "5G networks" refer to any systems using technology elements, equipment (including equipment needed for testing) or vertical application systems related to 5G mobile networks such as MF/HF communications, antenna arrays, network slicing, network virtualization, software-defined networking and edge computing meeting the specifications of Third Generation Partnership Project Release 15 and beyond to increase efficiency in production or provide smart services. Detailed features of the qualified smart machines and 5G expenditures are set forth in the Regulations.
2. This incentive is available for domestic companies and limited partnerships. A branch office is not eligible.
3. As elections are made on a yearly basis, the taxpayer can make different elections in different taxable years. However, once an election is made for a taxable year, that election cannot be changed.
4. A lower tax credit is available to provide taxpayers with additional time to use the credit.
5. A Taiwan limited partnership is not a pass-through entity for income tax purposes unless it is a qualified venture capital limited partnership approved by the Taiwan Taxation Administration.
6. Investment tax credits for expenditure on research and development (R&D) and personnel training.
7. The *Act for The Development of Biotech and New Pharmaceutical Industry* provides that eligible companies can claim an investment tax credit 35% of expenditure on R&D and personal training for a period of five years from the time the company is first subject to corporate income tax, however the total amount of investment tax credit in each year should not exceed 50% of the CIT payable. This 50% restriction does not apply in the final year of the five-year period.

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