

Taiwan issues tax ruling on treatment of leases under IFRS 16

EY Tax News Update: Global Edition

EY's Tax News Update: Global Edition is a free, personalized email subscription service that allows you to receive EY Global Tax Alerts, newsletters, events, and thought leadership published across all areas of tax. Access more information about the tool and registration [here](#).

Also available is our [EY Global Tax Alert Library](#) on ey.com.

Taiwan's Ministry of Finance (MOF) issued tax ruling No 10904546810 (the Ruling) on 22 May 2020 regarding the implementation of International Financial Reporting Standard 16 Leases (IFRS 16). Pursuant to the Ruling, Taiwan profit-seeking enterprises that implement IFRS 16 from 1 January 2019 should recognize costs and expenses for tax purposes in line with the accounting treatment, subject to certain exceptions.

Background

The Ruling was issued in response to the implementation of IFRS 16, which was promulgated by the Taiwan Financial Supervisory Commission and came into effect from 1 January 2019. Prior to that date, the accounting treatment of leases was generally based on International Accounting Standard 17 (IAS 17). The primary difference between IAS 17 and IFRS 16 is the accounting treatment for the lessee. Under IAS 17, lease payments for operating leases were expensed in the current period, however under IFRS 16, operating leases are required to be capitalized at present values as right-of-use assets and obligations for future lease payments should be accrued as lease liabilities.¹ The Ruling clarifies the tax treatment of leases subject to IFRS 16.

Tax treatment of leases under IFRS 16

Profit-seeking enterprises that implement IFRS 16 are required to recognize costs and expenses for income tax purpose in line with the accounting treatment, subject to the following exceptions:

1. The useful life of the right-of-use asset should not be shorter than the useful life promulgated by the MOF pursuant to Article 51 of the *Income Tax Act*.
2. Estimated decommissioning, removal, and restoration costs, which constitute a portion of the right-of-use assets, should not be depreciated and/or expensed until they are incurred.
3. Gains or losses arising from revaluations or the impairment of leased assets pursuant to other accounting standards² are not considered realized for tax purposes.

Endnotes

1. Except for short-term leases (lease term of less than 12 months) and low-value assets (asset value of less than US\$5,000).
2. IAS 36 Impairment of Assets and IAS 40 Investment Property.

For additional information with respect to this Alert, please contact the following:

Ernst & Young (Taiwan), Taipei

- ▶ Yishian Lin yishian.lin@tw.ey.com
- ▶ Sophie Chou sophie.chou@tw.ey.com
- ▶ Anna Tsai anna.tsai@tw.ey.com
- ▶ Chien-Hua Yang chienhua.yang@tw.ey.com
- ▶ Vivian Wu vivian.wu@tw.ey.com

Ernst & Young LLP (United States), Taiwan Tax Desk, New York

- ▶ Jerry Tang jerry.tang1@ey.com

Ernst & Young LLP (United States), Asia Pacific Business Group, New York

- ▶ Chris Finnerty chris.finnerty1@ey.com
- ▶ Bee-Khun Yap bee-khun.yap@ey.com

About EY

EY is a global leader in assurance, tax, transaction and advisory services. The insights and quality services we deliver help build trust and confidence in the capital markets and in economies the world over. We develop outstanding leaders who team to deliver on our promises to all of our stakeholders. In so doing, we play a critical role in building a better working world for our people, for our clients and for our communities.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients. For more information about our organization, please visit ey.com.

© 2020 EYGM Limited.
All Rights Reserved.

EYG no. 003786-20Gbl

1508-1600216 NY
ED None

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, or other professional advice. Please refer to your advisors for specific advice.

ey.com