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Global Tax Alert

Taiwan proposes refund of 5% corporate income tax for substantial investment

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Taiwan's Executive Yuan has proposed to pass draft amendments (the Draft) to the Statute for Industrial Innovation in an effort to improve the industry developments, attract foreign investments, and reduce the tax burdens for companies operating in Taiwan. The Draft will be submitted to the Legislative Yuan for further review. The proposal will benefit domestic entities with foreign parents as well as foreign companies with Taiwan operations as they may be conditionally exempt from an additional 5% corporate income tax generally referred to as a retained earning tax. Under the current law, if the retained earnings of the current year are not distributed by a Taiwanese company in the subsequent fiscal year, an additional 5% retained earnings tax is imposed on the undistributed retained earnings.

To promote industry developments and reduce the tax burdens for companies operating in Taiwan, the Draft proposes to exempt the 5% retained earnings tax when a Taiwanese company makes substantial investment of its retained earnings.

Although the term "substantial investment" is not yet defined, the Draft appears to target on certain categories/activities, such as factory and other construction activities, transportation facilities, machinery and equipment, intellectual property and research and development activities. An exemption appears to be through a refund mechanism by paying the 5% tax, followed by a refund application with supporting documents to prove the substantial investment made.

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