



## Taiwan Tax Alert

3 June 2010

### Corporate tax rate reduction passed

On 28 May 2010, the Taiwan legislature (Legislative Yuan) passed the final reading of an amendment to the Income Tax Act to lower the corporate income tax rate from 20% to 17%; the president is expected to sign the amended act very soon. The corporate tax cut will be effective retroactively as from 1 January 2010 for calendar year taxpayers or as from FY 2011 for fiscal year taxpayers.

The new lower rate should boost Taiwan's competitiveness by bringing the corporate tax rate in line with rates in other countries in the Asia-Pacific region, including Singapore's 17% rate and Hong Kong's 16.5% rate.

In addition, the legislature passed the Statute for Industrial Innovation (SII) on 16 April 2010 to attract capital investment in Taiwan for research and development (R&D), innovation and industry upgrading projects. The SII, which applies retroactively as from 1 January 2010, is intended to replace the Statute for Upgrading Industries (SUI), which expired at the end of 2009. Tax incentives on operational headquarters and logistics centers no longer exist under the SII, although certain tax exemptions on logistic centers are still available under other laws governing airport areas and free trade zones.

The reduction in the corporate income tax rate and the passage of the SII are major changes that will impact both Taiwanese and multinational enterprises doing business in Taiwan. The corporate income tax rate cut is encouraging news to enterprises. However, the SUI previously offered tax incentives, including an R&D and a training tax credit, an income tax exemption on qualified income generated by operational headquarters in Taiwan and an income tax exemption on qualified trading income of logistics centers in Taiwan. The SII no longer provides operational headquarters tax incentives. Without the SUI tax provisions, companies with operational headquarters in Taiwan will face taxation on dividends and royalties received from their foreign affiliates.

Taiwan lawmakers are hoping that the reduced corporate tax rate will help attract foreign enterprises and lure overseas Taiwan

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entrepreneurs back to Taiwan as their Pan-Asia and even global operational base. The reduced rate also will significantly lower the tax burden on small- and medium-sized domestic enterprises that are usually unable to obtain significant tax benefits through tax incentives.

Enterprises should review their income tax provisions or deferred tax assets to make necessary adjustments for either calendar year 2010 or FY 2011 because of the amended Income Tax Act and new SII.

Multinationals are also interested in knowing the likelihood of reducing Taiwan withholding tax on payments made out of Taiwan. To date, we are unaware of any government proposal to reduce the withholding tax rate.

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