

# RSM Taiwan

# Newsletter

RSM Taiwan Newsletter V202409

## Taiwan Economic Overview

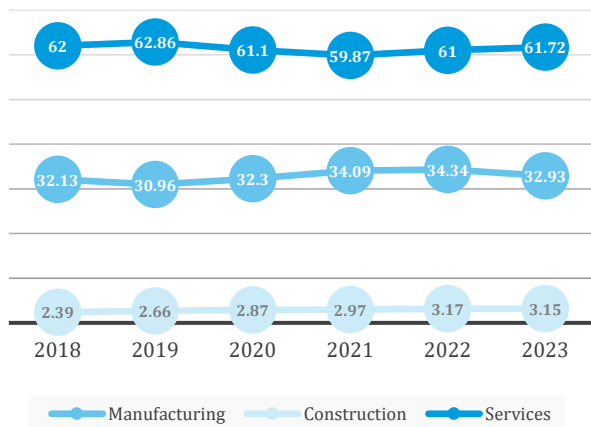
### Manufacturing

The performance of export-led manufacturing has been mixed. Although with the growing demand for high-end chips and AI servers, the petrochemical and semiconductor industries are facing challenges. Global economic uncertainty and economic changes in major trading partners may further affect the export performance of Taiwan's manufacturing industry.

### Services and Construction

Domestic demand in Taiwan is stable, and the financial and transportation and warehousing industries are booming due to the rise in the stock market and the increase in export volumes. The construction industry has benefited from the recovery of the domestic economy, and the overall outlook is optimistic.

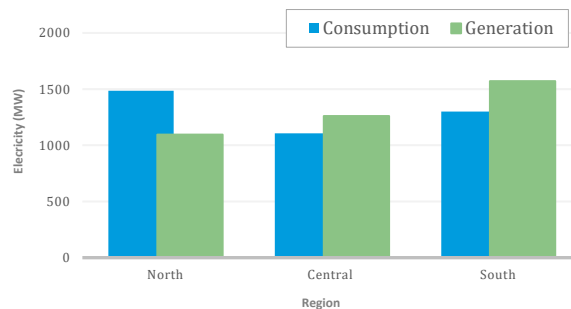
In summary, Taiwan's development in these areas is also affected by global economic changes, such as the interest rate adjustments of the United States and China's economic policies.



Proportion of manufacturing, construction, and service industries in Taiwan's GDP (past 5 years)  
Source: Department of Accounting and Statistics, May 30, 2024

### Power Supply Risk

According to the statistics of the Executive Yuan, the electricity consumption in the north of Taiwan in 2023 is 93 billion kWh, while the power generation is only 75 billion kWh, and the gap between supply and demand is 20 billion kWh. Although the government has been slightly relieved by the model of south-to-north power transmission and central power transmission to the north, Taiwan still faces the problem of power loss due to the transmission.



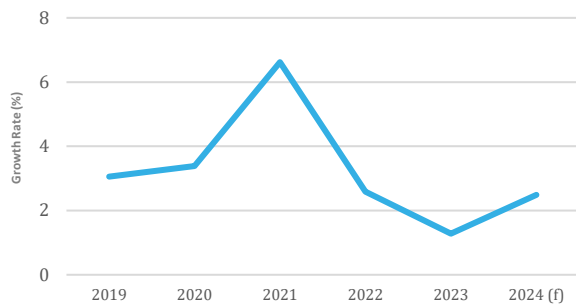
Power Consumption and Generation Gap by Region in Taiwan  
Source: Taiwan Power Company, August 30, 2024

To cope with the future demand for electricity, in addition to promoting the green energy industry and improving energy efficiency, the government is also considering the development of nuclear energy technology, plans to actively develop power sources and build power grids in the north to solve the current power shortage problem.

## Macroeconomy Forecast

Taiwan Economic Research Institute updated the latest economic forecast. Taiwan's economic growth rate in 2024 is 3.85%, a significant upward revision of 0.56% from the previous forecast. The revision is mainly due to the global AI boom, domestic semiconductor manufacturers to expand advanced processes and high-end packaging and testing capacity, and enterprises to expand their willingness to increase,

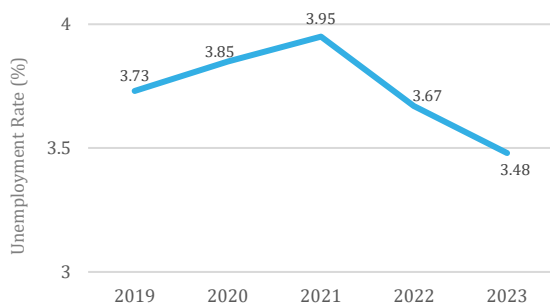
resulting in better-than-expected private investment, economic growth model to maintain both internal and external temperature.



Changes in Taiwan's economic growth rate over the past five years.

Source: Department of Accounting and Statistics

In addition, according to the announcement of the Taiwan's Directorate-General of Budget, Accounting and Statistics Office, the unemployment rate in the first half of 2024 will average 3.36%, a decrease of 0.15% year-on-year, indicating that the island's labor market situation is stable. With the continued stability of Taiwan's employment market, wage growth and the impact of stock market wealth effect, it will help Taiwan's economy continue growing.



Taiwan's unemployment rate over the past five years.

Source: Department of Accounting and Statistics

## Labor Legislation

As Taiwan transitions into an aging society, the government amended Article 54 of the Labor Standards Act in 2023, removing the mandatory retirement age of 65. This amendment allows employers and employees to negotiate flexible retirement ages, aiming to better utilize the elderly workforce.

### The Conditions for Voluntary Retirement Remain Unchanged

The conditions for voluntary retirement remain unchanged, including those who have worked for more than 15 years and are at least 55 years old, those who

have worked for more than 25 years, or those who have worked for more than 10 years and who have reached the age of 60. Workers can apply for voluntary retirement under the above circumstances by giving their employers an advance notice one month before the retirement.

### Resolution for Unsuccessful Negotiations

If both parties, the employer and employee cannot reach a consensus on the negotiated retirement age, they should still be processed in accordance with the original retirement age regulations.

### Penalties for Non-compliance

According to Article 12 of the Middle-aged and Elderly Employment Promotion Act, employers are prohibited from discriminating against workers who have postponed their retirement (including but not limited to wages, welfare measures, etc.). Failure to comply will face fines ranging from NT\$300,000 to NT\$1.5 million.

### Policy Implications

The revision of the Labor Standards Law represents a major change in Taiwan's labor laws. By establishing a consultation mechanism on the retirement age of workers after the age of 65, the government hopes to extend the working life of the elderly labor force and promote cooperation between workers and enterprises. This revision will not only help to make full use of the experience of the elderly workforce, but also provide greater flexibility and security for workers, in line with the needs of long-term social development.



## Tax Information

### Controlled Transactions and Three-Tier Transfer Pricing Documentation

The filing for 2023's profit-seeking enterprise income tax has ended at the end of May this year, and

enterprises that meet certain thresholds are reminded that they are required to report related parties' transactions in accordance with Taiwan's laws and regulations and prepare a three-tier documentation for transfer pricing.

For different types of controlled transactions among related parties, enterprises should base their analysis on individual transactions and adopt appropriate testing methods that comply with laws and regulations. If an enterprise conducts multiple controlled transactions or engages in both controlled and uncontrolled transactions, it should split the relevant financial information of the controlled transactions to be assessed for individual testing in accordance with the regulations.

In the middle of the year, the management of the enterprise should regularly review the profit and loss of all enterprises in the group, and if any abnormalities are found, they can adjust and reduce the risk through the pricing policy as soon as possible. When preparing the three-tier of documentation, pay attention to whether they are consistent with the financial statements, returns, transaction contracts, etc. If there is uncertainty in the transaction and the counterparty country has a tax agreement with Taiwan, the enterprise can also consider applying for a bilateral advance pricing agreement (APA) with the tax bureau to avoid the risk of double taxation.

It also reminds multinational companies that in the face of the global anti-tax avoidance wave, the incentives for tax havens have gradually disappeared, and enterprises should consider adopting the most tax-appropriate thinking to balance tax incentives and tax risks.

## Whether payments made to foreign entities must be subject to a 20% withholding tax

With the increasing frequency of international trade, the purchase of goods, services, software, etc. from foreign entities has become a daily operation of enterprises. When making payments, foreign entities often cannot accept the 20% income tax withheld, and often require Taiwan companies to absorb this part of the tax burden, resulting in a significant increase in costs. Is it impossible to avoid or reduce withholding taxes?

According to the Income Tax Act, if the head office of a profit-seeking enterprise is without the territory of Taiwan, but having income derived from Taiwan sources, it must pay income tax on this Taiwan-sourced

income in Taiwan. Therefore, whether the income earned by the foreign company is construed as the "Taiwan-sourced income" is the basis for determining whether the withholding tax is levied. However, according to the current regulations, most of the services or royalties provided by foreign entities to Taiwan companies are likely to be considered as Taiwan-sourced income of these foreign entities.

If paying taxes cannot be avoided, is it necessary to deduct 20%? Not necessarily. In the absence of applying for tax incentives, service income, royalties or other income paid to foreign entities without a fixed place of business or business agent in Taiwan are normally subject to a 20% withholding tax in accordance with the current regulations. However, if the services provided by the entities are technical services such as consulting, education and training, or if the entities are from countries that have signed a tax treaty with Taiwan, then they may enjoy tax reduction.

However, it should be noted that in addition to the royalty, dividends and interest applicable to the limited tax rate of the tax treaty, which do not require a prior application for approval letter, the rest of the reduction such as tax exemption for business profits under the tax treaty, Article 25 of the Income Tax Act and the application for verification/calculation of the net profit rate applicable to Taiwan-sourced income as well as application for Approving and Calculating the Applicable Net Profit Margin of Income from Sources in the Republic of China and the Share of Profit Generated in the Republic of China which need to apply for an approval letter in advance, so that the income tax can be reduced in accordance with the approved content at the time of payment.

The types of tax reduction applied for are closely related to the contract signed. Therefore, before signing the contract, it is advisable to consult with a professional tax advisor to discuss and assess whether there are suitable tax reductions or tax exemptions to apply for, to effectively grasp the tax costs and risks.



## Enterprises Accounting Standards (the EASs)

### Enterprise Accounting Standards No. 12 "Income Tax"

In line with IAS 12 Income Tax, the scope of income tax in EAS12 is amended, the scope of exemption for recognition of deferred tax liabilities is restricted, and the exemption for recognition of deferred tax liabilities is added.

## International Financial Reporting Standards (the IFRSs)

### Recognition of Profit or Loss on Investment of Preferred Stocks with Voting Right

According to paragraph 5 of IAS 28 "Investments in Associates and Joint Ventures", if an entity holds, directly or indirectly (e.g., through subsidiaries), 20 percent or more of the voting power of the investee, it is presumed that the entity has significant influence, unless it can be clearly demonstrated otherwise. Conversely, if the entity holds less than 20 percent of the voting power, it is presumed not to have significant influence, unless such influence can be clearly demonstrated. Additionally, a substantial or majority ownership by another investor does not necessarily preclude an entity from having significant influence.

Therefore, when the company directly or indirectly holds more than 20% of the preferred stocks with voting rights, which are substantially like the voting rights of the common shares of the investee company, it should be presumed to have significant influence unless there is other evidence that it does not have material influence.

If the investment in the Preferred Stocks has significant influence and its voting rights are substantially similar to the voting rights of the Common Shares, the investment gains and losses shall be recognized in accordance with the equity method and in proportion to the distribution of the profits and losses of the Preferred Stocks, provided that the articles of association of the investee company and the conditions for the issuance of the Preferred Stocks shall be considered in the assessment of the investment gains and losses and the net equity value of the investment.

## Company Act, Business Registration and Investment Regulations

Starting from April 2024, a total of more than 70 shops in Taipei's Zhongshan District, were reported for operating restaurants and retail stores in "residential zones" in violation of zoning regulations. The Department of Urban Development, Taipei City Government (the "DUD") has required the illegal businesses to improve within 2 months, resulting in many businesses in the business district will be forced to close the business. In response, they filed a request to save the business district. But it also detonates a tug-of-war between whether to maintain the culture of alleys and alleys and urban renewal to strengthen residential safety. In view of this, the most critical thing to the establishment of a catering and retail business in Taipei City is whether it is located legally.

In accordance with the provisions of the "Taipei City Land Use Zoning Control Autonomy Ordinance (台北市土地使用分區管制自治條例)" and the "Taipei City Land Use Zoning Conditional Allowable Use Standards (台北市土地使用分區附條件允許使用標準)", when the residential area is to be used for commercial use such as catering and retail, most of them need to be connected to a road of more than 8 meters, and must meet the allowable use conditions such as floor and area, etc.

If you are wondering whether the location is allowable for your business, you might consult with an accounting firm to apply to the Taipei City Commercial Office for a pre-check on the business premises before the opening of the business.



If you have any questions, please feel free to contact us through the following methods.

T 886 (2) 7735 9288

E [service@rsm.tw](mailto:service@rsm.tw)



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**廣信益群聯合會計師事務所 (RSM Taiwan)**

12F., No. 415, Sec. 4, Xinyi Rd. Xinyi Dist. Taipei, 11051, Taiwan

T 886 2 7735 9288

W [www.rsm.tw](http://www.rsm.tw)

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