

This report provides helpful information on the current business environment in Taiwan. It is designed to assist companies in doing business and establishing effective banking arrangements. This is one of a series of reports on countries around the world.



Global Banking Service

# Report on Taiwan

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## Important to Know

### Official language

- › Mandarin Chinese

### Currency

- › Dollar (TWD)

### Bank holidays

2010	
January	1
February	15
April	5
June	16
September	22

Source: [www.goodbusinessday.com](http://www.goodbusinessday.com).

## Types of Business Structure

Under Taiwanese law, there are several business structures available. Some require a minimum amount of share capital to be paid up before the business can be established. A financial institution must hold the paid share capital in a restricted account until the business is legally established.

### Public limited liability company

This is a company whose shares are not registered to their owners and are tradable on a public stock market. There must be a minimum of two individual or one corporate shareholders. This requires a minimum share capital of TWD 1 million, of which 25% must be paid up.

### Private limited liability company

This is a company whose shares are registered to their owners and therefore are not publicly tradable. There must be a minimum of one shareholder. This requires a minimum paid up share capital of TWD 500,000.

### General partnership

In a general partnership, all partners have full and joint liability. This requires no minimum share capital.

### Limited partnership

In a limited partnership, some partners enjoy limited liability (silent partners), although they are not permitted to exercise managerial control. Other partners are considered general partners and have unlimited liability. This requires no minimum share capital.

### Branches

Non-Taiwanese companies are entitled to establish a branch in Taiwan. A branch's activities are subject to Taiwanese company law, although it is considered part of the company's head office and therefore not a separate legal entity. The level of minimum share capital is determined by the Taiwanese government, typically in relation to the parent company's status. To open a branch a company must file a number of documents with the Ministry of Economic Affairs, most of which must be translated into Chinese.

## Opening and Operating Bank Accounts

### Residency

To be considered resident, a company must be incorporated in Taiwan or maintain its centre of management and control in Taiwan.

### Domestic and foreign currency account restrictions

Residents are permitted to hold local currency (TWD) accounts outside Taiwan and foreign currency accounts both within and outside Taiwan, which are convertible into TWD. Residents are also permitted to open foreign currency accounts at offshore banking units. A resident must be physically present to open foreign currency accounts outside Taiwan, including at offshore banking units.

Non-residents are permitted to hold foreign currency accounts in Taiwan, which are convertible into TWD. Non-residents are not permitted to hold local currency (TWD) cheque accounts, although they are permitted to open TWD-denominated demand deposit accounts.

### Anti-money laundering and counter-terrorist financing rules

- › Account opening procedures require formal identification of the account holder.
- › Beneficial owners need only to be identified when financial institutions know that a person is acting on behalf of another.
- › Customer identification requirements vary according to the nature of the business relationship. For account opening, the banking sector must establish identity by checking two reliable identity documents. For occasional transactions, financial institutions are required to check an identification document and keep records of the customer's name, birth date, address, telephone number and transaction details.
- › Customer identity must be verified and recorded when making occasional cash transactions exceeding TWD 500,000 or domestic wire transfers of TWD 30,000 and above.
- › Financial institutions must verify a customer's identification when the transfer arises from cashing a cheque from another financial institution by a customer and the transaction amount equals or exceeds TWD 1 million.

Supplied by BCL Burton Copeland ([www.bcl.com](http://www.bcl.com)). Data as at May 2009.

### Special purpose accounts required by local regulation

None.

### Value-added tax (VAT) on banking services

A non-VAT business tax of 2% is applied on banking services.

## Payment and Collection Instruments

Electronic funds transfers are the most common payment instrument for domestic and cross-border payments, in terms of value. They can be initiated using Internet and electronic banking facilities. Card payments are commonly used for retail transactions, with debit cards much more popular than credit cards. Pre-authorized direct debits are used primarily by utility and insurance companies to collect domestic payments.

The use of cheques has been declining in recent years. They are now mainly used by companies to make supplier payments. In some cases, cheques are post-dated and the beneficiary is able to use them to arrange finance.

### Payment Instrument Use (domestic)

Payment instrument	Transactions (million)		% change 2008/2007	Traffic (value) (TWD billion)		% change 2008/2007
	2007	2008		2007	2008	
Cheques	144.6	134.7	- 6.8	22,526	20,581	- 8.6
Credit transfers*	85.1	85.7	0.7	109,863	107,856	- 1.8
Direct debits	N/A	N/A	N/A	N/A	N/A	N/A
ATM cards	303.3	315.2	3.9	5,530	5,465	- 1.2
Credit cards	N/A	N/A	N/A	1,413	1,394	- 1.3

\* Figures from Interbank Remittance System only.

Source: Central Bank of the Republic of China (Taiwan).

### International Payments

International payments, including foreign currency payments and payments to and from parties located outside Taiwan, are processed through same-bank networks, through multibank alliances or by using traditional correspondent banking techniques.

### Payment Processing Times

Transactions processed (TWD-denominated)	Value dating rules	Cut-off time(s) in local Taiwan Standard Time (TST)
High-value and urgent domestic electronic payments	Real-time settlement, immediate finality	17:00 TST
Non-urgent, low-value credit transfers	Payments are settled on a same-day basis	17:00 TST
Non-urgent, low-value electronic retail payments	Credits are settled on a next-day basis; debits are settled on a three-day cycle	15:00 TST
Paper-based payments, including cheques and bank drafts	Settlement times depend on the location of participating banks and range from overnight to seven working days	15:00 TST

## Central Bank Reporting

The Central Bank of the Republic of China (CBC) collates balance of payments statistics from compulsory regular reporting.

The CBC requires information on all transactions between resident and non-resident bank accounts. Any foreign exchange transactions with a value in excess of TWD 500,000 should be supported by a declaration statement. In most cases, information

will be reported to the CBC by banks on behalf of their clients. In the case of transactions with a value in excess of USD 1 million, these must be reported immediately.

## Exchange Arrangements and Controls

Taiwan applies exchange controls on non-trade-related transactions, although trade-related transactions are free from control. Resident companies are permitted to send up to USD 50 million per year out of the country for non-trade-related purposes. Any additional remissions require permission from the CBC. There are no restrictions on the use of foreign exchange for import and export purposes or to meet wage costs. Resident and non-resident individuals are subject to different limits.

All foreign direct inward investment and resident outward investment must be authorized in advance by the Investment Commission of the Ministry of Economic Affairs. The CBC and the Investment Commission must both give their permission before foreign companies are permitted to borrow from abroad.

## Cash and Liquidity Management

Due to the existence of exchange controls and the prohibition of physical cash concentration, Taiwan is not used as a location for multinational companies from which to manage their international cash management.

### Physical Cash Concentration

Physical cash concentration is not permitted in Taiwan.

Taiwanese entities cannot participate in cross-border cash concentration structures because of the existence of exchange controls and other regulatory constraints.

### Notional Cash Pooling

Notional cash pooling is available in Taiwan. Residents and non-residents can participate in the same domestic cash concentration structure as long as they are held in the name of the same legal entity. Ministry of Finance approval is required for any notional cash pooling structure. Only TWD-denominated chequing and savings accounts are permitted to participate in a notional cash pooling structure.

Cross-border notional cash pooling is not permitted.

## Short-term Investment

### Bank instruments

Interest-bearing current accounts are not available. Banks offer time deposits in domestic currency for terms from one month to over a year and in a range of foreign currencies for terms from overnight to one year. In both cases, these are often subject to minimum investment requirements. Banks also issue fixed and floating rate negotiable certificates of deposit (CDs), usually for terms of one month to one year.

### Non-bank instruments

Some Taiwanese companies issue commercial paper (CP) in the form of promissory notes. It is issued for terms from one month to one year, with investments ranging from TWD 100,000 to TWD 10 million.

The Taiwanese government issues Treasury bills for periods of between three and nine months. They are denominated in TWD and have a minimum denomination of TWD 100,000.

Taiwanese companies have access to a developing domestic money market fund industry.

## Short-term Borrowing

### Bank

Overdrafts, bank lines of credit and bank loans are all available in Taiwan to both resident companies. Banks will usually charge a margin over interbank money market rates. Other commitment and arrangement fees will also be charged. Security is not usually required for overdraft facilities, but is taken for longer-term facilities, depending on the credit quality of the borrower.

Non-resident companies are not permitted to enter into a credit relationship with an onshore bank.

### Non-bank

Larger companies issue commercial paper into the domestic market. Issues with a value of less than TWD 10 million must be supported by backup credit lines from a domestic financial institution. Any company wishing to issue paper with a value in excess of TWD 150 million must be considered financially sound by the Ministry of Finance. Paper can be issued for periods from one month to one year, although terms of less than three months are most common.

Trade bills are not commonly discounted. Factoring is becoming more common as a source of finance.

## Taxation

### Corporate Taxation

- › Corporate income tax is levied on the income of any company operating within Taiwanese territory. All companies, except the Taiwanese branches of foreign companies, are taxed on their worldwide income. A foreign company's branch, or any other permanent establishment in Taiwan, is subject to income tax only on its income from Taiwanese sources. The following are the corporate income tax rates for 2009:

Taxable income (TWD)	Rate
Under 50,000	None
50,000–100,000	15% of total taxable income but not to exceed 50% of the taxable income over TWD 50,000
Over 100,000	25%

### Advance Tax Ruling Availability

- › Advance tax rulings are provided on international transactions or investments which meet one of the following conditions:
  - › the total amount of the investment (land investment excluded) exceeds TWD 200 million or the amount of the first transaction exceeds TWD 50 million; or
  - › the proposed transaction will bring significant economic benefit to Taiwan.

### Withholding Tax (subject to tax treaties and other exemptions)

Payments to	Interest	Dividends	Royalties	Other income
Resident companies	10%	0%	10%	10% / 20%
Non-resident companies (non-treaty countries)	20%	20% / 25% / 30%*	20%	20%

\* Taiwan's withholding tax rate on dividends, interest and royalties payable to a non-resident is 20%, but the dividend withholding rate is 30% for non-resident individuals and 25% for non-resident enterprises for investments not approved under the Statute for Investment by Overseas Chinese or the Statute for Investment by Foreign Nationals. However, with respect to dividends, interest and royalties, reduced withholding tax rates ranging from 5% to 15% are provided for by treaties.

### Capital Gains Tax

- › Capital gains are taxed as ordinary income. Capital gains from the sale of land and securities issued by Taiwanese companies are currently exempt from income tax. However, capital gains from the sale of securities issued by Taiwanese companies are subject to an alternative minimum tax of 10%.

## Securities Transaction Tax

- › The buying and selling of bonds (excluding those issued by the government), shares, debentures and any other securities are liable to securities transaction tax. If the taxpayer is the seller of the securities, then the tax is collected by the broker or sales agent, or in the case of direct transactions, by the transferee.
- › The rates of securities transaction tax are:
  - › 0.3% of the transaction price for a transaction in shares issued by a company; and
  - › 0.1% of the transaction price for a transaction in corporate bonds and other government approved marketable securities, such as certificates issued by securities investment trusts.

## Stamp Duty

- › Under Taiwanese Stamp Tax Law, documents executed in Taiwan are subject to stamp tax. The taxpayer is the person who signs the taxable documents. If both contracting parties keep original taxable documents, then each original would be subject to stamp tax, and therefore each party would be a stamp tax payer. The following documents are subject to stamp tax.

Taxable document	Rate
Receipts of monetary payments	0.4%
Deeds for the sale of movable property	TWD 12
Contractors' agreements	0.1%
Deeds or contracts for sale, gratuitous transfers, partitions or exchanges of real estate or Dien agreements on real estate	0.1%

## Thin Capitalization

- › There are no thin capitalization rules in Taiwan. However, the minimum equity capital required for a company limited by shares is TWD 1 million. Generally, foreign investments are subject to approval by the Investment Commission of the Ministry of Economic Affairs (MOEA). The MOEA would not generally approve equity investments if the debt therein is over three times the equity.

## Transfer Pricing

- › Taiwan's Ministry of Finance officially announced transfer pricing assessment guidelines on December 29, 2004. In principle, Taiwan's transfer pricing regulations are based on Organisation for Economic Co-Operation and Development (OECD) guidelines and section 482 of the US IRS Code. Taxpayers must provide detailed information (such as transaction types, amount, relationships and the method used to determine the arm's length price) on their corporate income tax returns. The transfer pricing regulations are applicable for 2004 returns and thereafter.
- › In addition to the disclosure requirements, there are documentation requirements. If the taxpayer does not comply with the documentation requirements, or if it does not provide documents to the tax office to assess its income, the guidelines state that the tax office may use the standard profit rate to adjust and assess the taxpayer's taxable income.

## Sales Taxes / VAT

- › There are two sales tax systems in Taiwan. One is the value-added tax (VAT) system and the other is the non-value-added business tax (non-VAT) system (previously called gross business receipts tax or GBRT).
- › Sales tax (VAT and non-VAT) is levied on imported goods and on goods and services sold in Taiwan. VAT is levied on the basis of the value added to each sale. Non-VAT is levied primarily on the gross business receipts of financial institutions and small-scale enterprises.
- › Currently, under the VAT system, a unitary tax rate of 5% applies to business persons in all industries. Export sales and export-related services, however, are subject to a zero tax rate.
- › The non-VAT system applies to banks, insurance companies, trust and investment companies, securities traders, futures traders, bills finance companies, and pawnshops, where the tax rate is 2% (except reinsurance premium income, for which the rate is 1%).

## Payroll and Social Security Taxes

### Labour insurance

- › Any establishment employing five or more workers must enter into labour insurance contracts with the Labour Insurance Bureau for every employee above the age of 15 but under 60. The Statute for Labour Insurance covers two types

of risks: ordinary risk and occupational risk. The premium for ordinary risk insurance is 6.5–13% of the employee's monthly salary, 70% of which is borne by the employer, 20% by the employee and 10% by the government. The premium for occupational risk insurance is paid entirely by the employer. (The types of industries required to contract for occupational risk insurance, as well as the applicable premium rates, are prescribed by the central government agency in charge.) The maximum monthly wage subject to labour insurance premium is TWD 43,900 (as of March 2009).

#### Health insurance

- › The national health insurance premium is 4.55% of an employee's monthly salary. Employees pay 30% of the premium, employers 60% and the government 10%. The current maximum monthly wage subject to the health insurance premium is TWD 131,700.

#### Pension

- › The Labour Pension Act (LPA) requires a defined contribution plan to be set up but applies to domestic workers only. It requires employers to contribute at least 6% of employees' monthly salaries/wages to an individual pension fund account. The new pension account is portable, allowing employees to carry the individual account balance with them even if they change employment, and enables them to draw a lump sum pension payment or monthly pension after they retire. Under the LPA, the Bureau of Labour Insurance (BLI) takes charge of collection, payment and custody of the labour pension fund and its compulsory execution and also the imposition of delay penalties and fines.

All tax information supplied by Deloitte LLP ([www.deloitte.com](http://www.deloitte.com)). Data as at March 1, 2009.

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