



## TAIWAN

- Taiwan is geographically located North of the Philippines and southeast of China, proximity to the East China Sea, South China Sea, Philippine Sea and Taiwan Strait.
- Total area: 36,188 square kilometers.
- Climate: Oceanic and subtropical monsoon.
- Population: 23 million inhabitants.
- Population density: 637 people per square kilometer.
- Ethnic background : Hakka, Fujianese, Indigenous, Mainland Chinese.
- Population by age: about 13.3% of the total population is less than 15 years of age, and 13.5% is greater than 65 years of age.
- Taiwan has two levels of government, the Central Government and the Local/Municipal Government. The Central Government is composed of five branches: Executive, Legislative, Judicial, Control and Examination Yuan.
- In contrast to countries such as the United States or England, the legal system in Taiwan is based on civil law, similar to Germany or Japan. The primary source of law comes from statutes rather than judicial decisions.
- One significant fact for foreign nationals doing business in Taiwan is: unless otherwise provided by law, legal documents do not have to be in Chinese. English legal documents are accepted in general and are as binding and effective as if they were written in Chinese.
- Mandarin Chinese (official language), Taiwanese, Hakka and other Chinese dialects.
- English and Japanese are the most commonly used foreign languages.
- Ethnic Groups: Taiwanese (including Hakka) 87%, mainland Chinese 10%, indigenous 2.5%.
- Religions: mixture of Buddhist and Taoist 80%, Christian 6.1%, other 2.5%.
- Investment Growth Areas: as the economy has shifted from labor-intensive industries to knowledge-based and capital-intensive industries, there are a variety of new investment opportunities available in Taiwan. Some of the world's leading high-tech players are located in Taiwan. The prime industries for potential investment include: semiconductors, opt-electronics, precision machinery and instrumentation, metals, information and technology equipment, electrical products, aviation, and automotive, biomedical and pharmaceutical products.
- Currency: New Taiwan dollar (NT\$)

## HISTORICAL AND CURRENT BUSINESS ENVIRONMENT

- Taiwan's economy has gone through several distinctive phases. Until the 1950s, Taiwan's economy was mainly agrarian. This was due to its subtropical climate, which allowed agricultural products to flourish. After land reform policies, the government implemented a series of policies aimed at making Taiwan self-sufficient. Consequently, the manufacturing sector expanded dramatically in the 1950s and Taiwan became a major exporter

of textiles and cheap manufactured goods.

- In the 1960s, Taiwan's manufacturing sector shifted to electrical equipment and electronic goods. Between 1962 and 1985 this shift in manufacturing focus allowed the economy to grow at an average annual rate of almost 10 per cent. This was more than double the economic growth rate of industrialized countries during the same period. The 1980s and 1990s saw industrial output shifting to chemical and high tech production. Plastics became one of Taiwan's largest industries along with steel, fertilizers, and cement. Rubber, glass products, bicycles, food processing and pharmaceutical manufacturing also

flourished. Recently, with its highly educated workforce, Taiwan has seen impressive growth in knowledge-based and service-oriented industries. Taiwan is a major global competitor in semiconductors, computer-related products, telecommunications equipment, precision tools, optical machines, optical supplies and biotechnology.

## BUSINESS PRESENCE REGULATIONS

### Local Incorporation

- All companies in Taiwan must be incorporated and certified by the Ministry of Economic Affairs.
- There are four different types of corporate structure in Taiwan: unlimited company, unlimited company with limited liability shareholders, limited company and company limited by shares.

### Branch of Foreign Corporations

- To establish a branch office in Taiwan, a foreign company must register with the Ministry of Economic Affairs. The branch office must also register with the local tax authorities.

## FOREIGN INVESTMENT RESTRICTIONS AND CONDITIONS

### Restrictions in Shareholdings

- A company where more than one shareholder has limited liability is a "limited company." The shareholders are liable for debts and obligations incurred by the company only to the extent of their capital contribution. There are strict restrictions on the transfer of shares.
- A "company limited by shares" has at least two shareholders or at least one government or legal entity as a shareholder. It is similar to a US corporate structure. There are no minimum capital requirements. The total capital is divided into shares and each shareholder is liable for the debts and obligations of the company only to the extent of his or her holdings. Shares may be transferred freely one year after the company's incorporation, but 10 to 15% of newly issued shares must be set aside for employee stock purchase plans.

### Approvals and Licensing

- A foreign investment approved (FIA) company must satisfy the requirements of "The Statute for Investment by Foreign Nationals", and be approved by the Ministry of Economic Affairs. Although an investment plan is required, there is no cost to apply and status is usually granted unless it falls under the "Negative List for Investment by Overseas Chinese and Foreign Nationals" designation.

## CENTRAL BANK EXCHANGE CONTROL

### Approvals Required

- There are currently no foreign exchange controls in Taiwan. However, any financial-type foreign exchange accounts must comply with the measures set out in "The Statute Governing

Foreign Exchange". The statute applies to any inflow or outflow of foreign currency funds that involves an exchange of New Taiwan dollars.

### Reporting Requirements

- For any inflow or outflow of foreign currency involving an exchange of New Taiwan dollars, the following measures apply:
  - o Business entities may conduct transactions of up to US\$50 million a year for payments that are not related to trade.
  - o Non-residents of Taiwan may exchange up to US\$100,000. There is no time or frequency limitation to currency exchanges for non-residents.

## TAXATION

### Corporate Income Tax

- According to Taiwan's Income Tax Law, taxable income is defined as gross revenue minus allowable deductions. For any business with a head office in Taiwan, gross income is income derived from within or outside Taiwan. Locally incorporated companies with overseas operations can deduct taxes paid in those foreign countries.
- Any business with a head office outside Taiwan, but with a local branch office in Taiwan is liable for tax on income derived from local sources. These entities are taxed at the same rate (20%) as domestic Taiwanese companies.
- Income tax of overseas businesses with no fixed office or agent in Taiwan is withheld at a rate of 20% at source.

### Individual Income Tax

- Anyone who maintains domicile in Taiwan or resides in Taiwan for more than 183 days in a taxable year is considered a Taiwan resident, and must pay income tax according to the income tax rates (up to 40%).

### Withholding Tax

- The withholding tax rate on dividends distributed by a company or profit distributed by a cooperative is 20%.

### Indirect Tax

- The business tax rate for business entities other than those previously outlined, namely VAT (Value Added Tax) business entities, shall be between 5% and 10% subject to the prescription of the Executive Yuan. The current applicable VAT rate is 5%.
- The VAT on transactions related to banking, insurance, securities brokerages etc, shall be 5%, and VAT on reinsurance transactions is 1%.

### Double Taxation Treaties

- Taiwan's policy toward tax treaties is to avoid double taxation, prevent fiscal evasion and improve bilateral economic and investment relations. The tax treaties that Taiwan has negotiated follow the OECD and UN models; these take into consideration matters relating to the political and fiscal status, economic and trade of the mutual parties involved.
- As of 5 March 2019, there are 32 comprehensive income tax treaties and 12 international transportation income tax

agreements, which have been signed by Taiwan and are currently active.

## TAX AND INVESTMENT INCENTIVES

### **Pioneer Status**

- Located at the heart of Asia-Pacific.
- Less than three hours' flying time to seven major cities in the Western Pacific.
- 2.5 days average sailing time to five major Asia-Pacific ports.
- Key geographic and linguistic advantages to deal with the Chinese Market.
- OEM and ODM manufacturer for high-tech industries.
- R&D and test centers for products aimed at the global ethnic Chinese markets.

### **Capital Allowances**

- Investment as referred to in this "Statute for Investment by Foreign Nationals" shall be as follows:
  - Holding shares issued by a Taiwanese company, or contributing to the capital of a Taiwanese company;
  - Establishing a branch office, a proprietary business or a partnership in Taiwan; and
  - Providing loan(s) to the invested business referred to in the preceding two points for a period exceeding one year.
- If the capital invested in the enterprise is more than 45% of the paid-in capital and such investment capital remains to be more than 45% of the total for 20 years from the inception of the enterprise, the invested enterprise shall not be expropriated or acquired.

### **Investment Tax/Reinvestment Allowances**

- Until 31 December 2019, for the purposes of improving and modernizing industrial production, an investment tax credit of up to 15% of the R&D expenditure against profit-seeking enterprise income tax is available for investments made in equipment or technology used for automation, reclamation of resources, pollution control, etc. The credit is limited to 30% of the income tax payable for current year.
- Subsidies are available for up to 50% of total spending by foreign companies on the establishment of R&D center in Taiwan.

### **Tax Exemptions**

- A non-resident individual or a non-resident enterprise, which has been approved to make investments in Taiwan under the "Statute for Investment by Overseas Chinese" or the "Statute for Investment by Foreign Nationals" and receives dividends from a Taiwanese enterprise or profits from a Taiwanese partnership, shall benefit from reduced income tax payable. The tax rate will be reduced to 20%, and shall be withheld at the time of payment.

## EMPLOYMENT LAW

### **General Legal Framework**

- The Labor Standards Law, enacted in 1984, provides the basic guidelines for workers and employers with respect to their rights and obligations.
- The objective of the Labor Standards Law is to provide minimum standards of working conditions, protect labor rights, and to promote social and economic development.

### **Sector Requirements**

- Employers may only hire foreign workers for employment opportunities that qualify under certain categories and conditions. These are set out in the Employment Service Act. Some examples include: specialized or highly technical workers and Executive/Management for an investment project. Work permits are generally valid for three years with the possibility for the employer to apply for extensions if required.

### **Minimum Wage Requirements**

- In accordance with the regulation of Article 21 of the Labor Standards Act, wages should be paid in accordance with the agreement between employers and employees, and the wage should not be lower than the basic minimum wage. As of 1 January 2020, the basic minimum wage is NT\$23,800 per month, and NT\$158 per hour.
- A worker's normal working hours should not exceed eight hours per day and the cumulative total working hours for each two-week period should not exceed 84 hours.

### **Trade Unions and Insurance**

- Taiwan's workforce is divided into two major categories: workers with fixed employers, and workers without fixed employers. Workers with fixed employers are insured through their companies, while workers without fixed employers must join a trade union and be insured through the union.

### **Statutory Contributions**

- Labor insurance premiums are calculated as follows:
  - Employers contribute 70%, the government contributes 10%, and the worker contributes 20%. Workers are covered for injury and illness, childbirth, loss of functioning ability, medical costs resulting from occupational accidents, old-age pension and death.
- National Health Insurance is a compulsory social insurance in Taiwan.
- Insured persons need only to receive their NHI IC card and pay their premiums regularly. In cases of injury, illness, or childbirth, they are insured and can access full medical care for a small registration fee and partial payment for treatment or hospitalization.

## DISPUTE RESOLUTION

### **General Legal Framework**

- Law in Taiwan is mainly based on the civil law system. The legal structure is organized into the six codes: the Constitution, the Civil Code, the Code of Civil Procedures, the Criminal Code, the Code of Criminal Procedures and Administrative laws.

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### Court System

- The court system in Taiwan is divided into three levels: District Court, High Court and the Supreme Court. There are 22 District Courts in Taiwan, each divided into civil, criminal and summary divisions. Almost all civil and criminal cases in the first instance is heard in District Court.

### Alternative Dispute Resolution

- Reconciliation is a form of dispute resolution whereby the parties to a dispute voluntarily agree to try to settle the matter privately with the assistance of a neutral third party. It is not a compulsory procedure.
- Arbitration is another form of dispute resolution recognized in Taiwan and commonly used to resolve commercial disputes.

## IMMIGRATION PROCEDURES

### Social Visit Pass

- Visitor visas are used by foreign nationals who hold ordinary passports or other travel documents and plan to stay in Taiwan for less than six months for transit, tourism, family visits, study and business. Information about visitor visa application can be obtained from the Bureau of Consular Affairs, Ministry of Foreign Affairs.

### Professional's Visit Pass

- A "One-stop Center for Work Permits applications for Foreign Professionals" was set up by the Council of Labor Affairs (CLA) since 15 January 2004 in order to make the application procedures easier for foreign nationals seeking work permits in Taiwan. The employers of the foreign workers must submit applications for work permits, together with required documentation to the relevant authority.
- Work permits for foreign professionals are valid for a maximum of three years; if further employment is needed, the employer may apply for an extension four months prior to expiration of the original work permit.

### Work Permits

- In order to legally work in Taiwan, a foreign national must apply for employment authorization, also known as a work permit. The employer must file the application. Foreign nationals may not be self-employed in Taiwan. The employer may only hire foreign nationals for employment opportunities that qualify under the categories set out in the Employment Service Act (see Sector Requirements under Employment Law). Except as otherwise provided by law, work permits are generally valid for three years with the possibility for the employer to apply for extension.

### Special Permanent Residency or Other Permits

- Resident visas can be issued to applicants who want to stay for more than six months and whose reason for staying in Taiwan includes one of the following: joining family, study or research, employment, investment, medical treatment, missionary work, or other legitimate activities. A holder of a Resident Visa must, within 15 days of entry into Taiwan, or within 15 days following the issuance of a Resident Visa to replace another type of visa, apply to the Bureau of Consular Affairs County/City Service

Station at his or her place of residence for an Alien Resident Certificate (ARC) and Re-entry Permit. The ARC is valid between one to three years.

- Citizens of applicable countries and certain foreign nationals who meet specific criteria may enter Taiwan without a visa for a maximum 90-day stay (Visa Exempted Permit).<sup>3/4</sup>

