



PrimeGlobal

*An Association of
Independent Accounting Firms*

DOING BUSINESS IN TAIWAN





COMPANY FORMATION IN TAIWAN

MAIN FORMS OF COMPANY/BUSINESS IN TAIWAN

A subsidiary (including a “company limited by shares” and a “limited company”), a branch, and a representative office are forms of business entities which can be considered by foreign investors to invest in Taiwan.

SPECIFIC TAX CONCERNS RELATED TO ESTABLISHING A COMPANY

A subsidiary is the only legal form of entity that may apply for tax incentives; a branch is the only legal form of entity that will not be taxed for additional income tax if current year’s net income is not distributed in the immediate following year, and will not be withheld for income tax at the time of earnings repatriation; a representative office is the only form of entity that cannot issue invoices, cannot apply for factory license, nor can it import and/or export merchandise.

LEGAL ISSUES RELATED TO ESTABLISHING A COMPANY

Chops (including chop under the name of the company, and the one under the name of its chairman or branch manager) are commonly used in Taiwan for business operations. With both the chops of the company and its chairman, any person may withdraw cash from the company’s bank account without the presence of its chairman. Certain industries, such as telecom and chemical manufacturing, require special permit in order to run their businesses. A factory license is required if a company is to engage in manufacturing activities. Certain industries may ban investors with Chinese passports. Wiring of capital may not be considered legitimate before the approval from the Ministry of Economic Affairs is granted. A minimum capital of NT\$5 million is required if the company is to hire foreign workers.

CULTURAL CONCERNS RELATED TO ESTABLISHING A COMPANY

English is not the official language in Taiwan, and most business and non-business activities are dealt with in local language. Direct investments to and from China are still not widely accepted, so using a Chinese entity to invest in Taiwan or vice versa may not be a good business decision.

OTHER COUNTRY-SPECIFIC ISSUES RELATED TO ESTABLISHING A COMPANY

If the Taiwanese company’s chairman or branch manager is a foreigner who will not visit Taiwan to establish this entity, it may take extended period of time to open a bank account. In addition, both local and multinational banks are very selective in screening their new customers. Entities with small initial capital or projected sales revenue may have difficulty opening a bank account, which is required for forming an entity in Taiwan.



PERMANENT ESTABLISHMENT IN TAIWAN: BRANCH OR SUBSIDIARY?

DEFINITION OF A PERMANENT ESTABLISHMENT

A permanent establishment is a fixed location of operation for an entity's full or partial businesses operating activities. An engineering site located in Taiwan can be a permanent establishment if the total length of time for the engineering site exceeds a certain threshold.

DEFINITION AND MAIN DIFFERENCES BETWEEN A BRANCH AND A SUBSIDIARY

A subsidiary is incorporated pursuant to the Company Act and is an independent legal entity. A subsidiary can be listed in the stock market and is entitled to various tax incentives. When a subsidiary distributes dividends to its foreign shareholders, it is subject to 20% withholding tax.

A branch is also incorporated pursuant to the Company Act and can run its business independently; however, from a legal point of view, the branch is dependent to its head office. If there will be any lawsuit against the branch, the head office will also be involved. In addition, a branch cannot be listed in the stock market and is not entitled to various tax incentives. When a branch distributes the profits back to its head office, there is no 20% withholding tax.

TAX AND ACCOUNTING OBLIGATIONS

Both subsidiary and branch are subject to the Business Accounting Act in Taiwan and are required to maintain book of records in accordance with local generally accepted accounting principles. The book of records shall be maintained in local languages and denominated in local currency; however, if the book of records is maintained in a foreign language, a translation from that foreign language to local language upon request can be acceptable to the tax authorities. Both subsidiary and branch are required to file annual corporate income tax returns and VAT returns on a bi-monthly basis. If there are any payments that require withholding of income tax from the recipients, both entities are required to do so to comply with the law.

REGISTRATION FORMALITIES

For a subsidiary, the registration procedures are:

1. Chinese company name reservation
2. Foreign Investment Approval
3. Capital Examination
4. Company Registration
5. Tax Registration



STANDARD LEGAL OBLIGATIONS AND FORMALITIES FOR A BRANCH

Once Recognition is obtained, the branch will have the same rights and obligations and will be subject to the same jurisdictional authority as a domestic company. In running businesses, a branch is an independent entity; however, from a legal point of view, a branch is dependent to its head office.

For a branch, the registration procedures are:

1. Chinese company name reservation
2. Recognition & Branch Registration
3. Capital Examination
4. Tax Registration



HOW TO HIRE MY FIRST EMPLOYEE IN TAIWAN

MAIN LEGAL STEPS TO FOLLOW TO HIRE A FIRST EMPLOYEE

The company should enter into the employment contract with the employee. Thereafter, the company should enroll the Health Insurance, Labor Insurance and Pension schemes and pay the premiums in accordance with relevant laws.

If the company is to hire foreign workers, it shall have the minimum capital as required by law in order to proceed. The company should then apply for the Work Permit in advance.

DESIGN AND CONTENTS OF AN EMPLOYMENT CONTRACT

An employment contract can be entered into when both parties agree the contents which should include but not limited to the following information:

1. Job description
2. Salary amount
3. Employment period

CAN SOMEBODY DO BUSINESS FOR ME AND NOT BE AN EMPLOYEE?

A person who does business for the company but is not be treated as an employee would become a consultant to the company and the company should pay the person the consulting fee and subject to a 10% withholding tax.



HOW TO READ TAIWANESE FINANCIAL STATEMENTS

Basic Taiwanese financial statements consist of:

1. Balance Sheets
2. Statements of Comprehensive Income
3. Statements of Changes in Equity
4. Statements of Cash Flows
5. Footnotes that covers background of the Company, summary of important accounting policies, supplementary information to the line items on the financial statements, and other disclosures



甲公司
資產負債表
中華民國 X2 年 12 月 31 日及
X1 年 12 月 31 日
單位：新臺幣元

Company X
Balance Sheets
X2.12.31 and X1.12.31

in New Taiwan dollars

資產
會計項目
流動資產
現金及約當現金
短期投資
透過損益按公允價值衡量之金
融資產—流動
避險之衍生金融資產—流動

應收票據
應收帳款
其他應收款
存貨
預付款項
其他流動資產
小計
非流動資產
長期投資
備供出售金融資產—非流動

採用權益法之投資

投資性不動產
不動產、廠房及設備
無形資產
遞延所得稅資產
其他非流動資產
小計
資產總計

Assets	<u>X2.12.31</u>		<u>X1.12.31</u>	
Accounting Items	Amount	%	Amount	%
Current assets				
Cash and cash equivalent				
Short-term investments				
Financial assets at fair value thru profit and loss-current				
Derivative financial assets for hedging-current				
Notes receivable				
Accounts receivable				
Other receivable				
Inventories				
Prepayments				
Other current assets				
Subtotal				
Non-current assets				
Long-term investments				
Available-for-sale financial assets-non-current				
Investments accounted for using the equity method				
Investment properties				
Property, plant and equipment				
Intangible assets				
Deferred tax assets				
Other non-current assets				
Subtotal				
Total assets				



甲公司
資產負債表
中華民國 X2 年 12 月 31 日及 X1
年 12 月 31 日
單位：新臺幣元

Company X
Balance Sheets
X2.12.31 and X1.12.31
in New Taiwan dollars

負債及權益 會計項目	Liabilities and Equity Accounting Items	<u>X2.12.31</u> <u>Amount</u>	<u>%</u>	<u>X1.12.31</u> <u>Amount</u>	<u>%</u>
流動負債	Current liabilities				
短期借款	Short-term loans				
應付票據	Notes payable				
應付帳款	Accounts payable				
其他應付款	Other payable				
當期所得稅負債	Current tax liabilities				
負債準備—流動	Provisions-current				
小計	Subtotal				
非流動負債	Non-current liabilities				
長期借款	Long-term loans				
負債準備—非流動	Provisions-non-current				
遞延所得稅負債	Deferred tax liabilities				
其他非流動負債	Other non-current liabilities				
小計	Subtotal				
負債總計	Total liabilities				
權益	Equity				
普通股股本	Common stock				
資本公積	Capital reserve				
保留盈餘	Retained earnings				
法定盈餘公積	Legal reserve				
特別盈餘公積	Special reserve				
未分配盈餘	Unappropriated earnings				
其他權益	Other equity accounts				
權益總計	Total equity				
負債及權益總計	Total liabilities and equity				



甲公司
綜合損益表
中華民國 X2 年及 X1 年 1 月 1 日
至 12 月 31 日
單位：新臺幣元

Company X
Statements of Comprehensive Income
For the Years ended December 31,
X2 and X1
in New Taiwan dollars

項目	Accounting Items	<u>X2</u> Amount	%	<u>X1</u> Amount	%
營業收入	Operating revenue				
營業成本	Operating costs				
營業毛利	Gross profit				
營業費用	Operating expenses				
推銷費用	Selling expenses				
管理費用	Administrative expenses				
研發費用	Research and development expenses				
小計	Subtotal				
營業淨利	Operating income				
營業外收益及費損	Non-operating income and expenses				
利息收入	Interest income				
權利金收入	Royalty income				
利息費用	Interest expense				
採用權益法認列之投資利益	Investment income recognized under equity-method				
減損損失	Impairment loss				
兌換損失	Foreign exchange loss				
小計	Subtotal				
稅前淨利	Income before tax				
所得稅費用	Income tax				
繼續營業單位稅後淨利	Net income from continuing operation				
停業單位損益	Income/(Loss) from discontinued operation				
本期稅後淨利	Net income				
本期其他綜合損益	Other comprehensive income				
國外營運機構財務報表換算之兌換差額	Exchange difference on translation of foreign operations				
備供出售金融資產未實現損益	Unrealized gain/loss on available for sale financial assets				
現金流量避險中屬有效避險部分之避險損益	Hedge difference from effective cash flow hedge				



DOING BUSINESS IN
TAIWAN

致遠
Diwan

採用權益法認列之其他綜合損益 份額	Share of other comprehensive income of equity-investees
與其他綜合損益相關之所得稅	Income tax related to other comprehensive income
本期其他綜合損益稅後淨額	Other comprehensive income for the year, net of tax
本期綜合損益總額	Total comprehensive income

