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Guide to Taiwan Individual Income Tax

1. Introduction

Taiwan residents are subject to national taxation on their earned income, including wages, salaries, benefits and pensions. National income tax is progressive, the scale ranging from 0% to 40%. In addition to income tax, individuals in employment are liable for social security payments, which consist of occupational pension, unemployment and health insurance contributions.

All foreign residents with "ROC source income" shall pay consolidated income tax in accordance with law on the basis of their ROC source income.

2. Tax Base

In accordance with Taiwan Income Tax Act (ITA), individuals are only subject to income tax on Taiwan source income with income derived from foreign sources being exempt from income tax. Residents, both Taiwanese and foreign nationals, pay tax on net consolidated income calculated as the total income received from all Taiwan sources less exemptions and deductions. Non-residents who stay in Taiwan not over 90 days within a calendar year are taxed on their gross income under the withholding tax system without allowance for deductions and exemptions.

For the non-resident staying in Taiwan over 90 days but less than 183 days within a calendar year has no other Taiwan source incomes, but salaries from local employers, he/she is basically not required to file the income tax return if the 18% tax on the local salaries is withheld. In practice, however, a non-resident may prefer to file annual tax return voluntarily, without allowance for deductions and exemptions, in order to keep a clean tax record in Taiwan.

Residence is determined on the basis of whether a person is domiciled in Taiwan and lives in Taiwan on a regular basis. An individual will also be considered to reside in Taiwan where although not domiciled in Taiwan they reside in Taiwan for 183 days or longer within a calendar tax year.

3. Tax on Residents

A “resident” is defied in the ITA as:

- A person who is domiciled in Taiwan and resides at all times within the territory of Taiwan; or
- A person who is not domiciled in Taiwan but who resides within the territory of Taiwan for no less than 183 days during a taxable year.

The tax year for individual income tax purposes is January 1 to December 31. A resident individual must file an income tax return between May 1 and May 31 of the year following the tax year and pay any tax due. The resident must file his/her income tax return, including the income, exemptions, and deductions of his/her spouse and dependents.

(1) Personal Exemptions

The personal exemption for the 2015 income tax calculation is NTD85,000 each for the taxpayer, his/her spouse, and each dependent, or NTD127,500, increased by 50% if the taxpayer, his/her spouse, and dependents are 70 years of age or older.

(2) Deductions

A taxpayer may claim the higher of itemized deductions or the standard deduction. If the total deductions on an itemized basis exceed the standard deduction amount, a taxpayer can choose to itemize deductions rather than take the standard deduction. The standard deductions for filing the FY2015 individual income tax are as follows:

Standard Deduction for FY2015 Individual Income Tax			
Item			**Amount**
Deductions	Standard Deduction	Single	NTD85,000 per taxpayer
		Married Couple	NTD180,000 per household
	Itemized Deductions	Contributions and donations	Deductible up to 20% of gross consolidated income. No limit is imposed on the deduction for donations or contributions made to support national defense, troop morale, or for contributions to the government
		Insurance premiums	Deductible up to NTD 24,000 per person per year. No limit is imposed on deductions for national health insurance premiums
		Medical and childbirth expenses	Deduction is based on availability of supporting documentation
		Losses from disaster	Deduction is based on availability of supporting documentation
		Interest on a home mortgage	Up to NTD300,000 per year per tax return
		Rent for housing	Up to NTD120,000 per year per tax return

Standard Deduction for FY2015 Individual Income Tax		
Item		**Amount**
Special Deductions	Loss from property transactions	Up to the declared amount of income derived from property transactions in the same year
	Special deduction for income from salaries/wages	Up to NTD128,000 per year for each person
	Special deduction for savings and investment	Up to NTD270,000 per year per tax return, but this limit does not apply to interest accrued and exempt from income tax on postal pass-book savings under the provisions of the Post Savings and Remittances Act and interest on short-term commercial paper subject to separate taxation under the ITA
	Special deduction for the disabled or handicapped	Up to NTD128,000 per year per person
	Special deduction for school tuition	NTD25,000 per child per year. The limit does not apply to tuition for the Open University, vocational colleges, the first three years of fie-year vocational colleges and students who have accepted government subsidies
	Special deduction for pre-school children	NTD25,000 per child per year for a taxpayer who has children fie years old or younger. However, the deduction may not be claimed if: (1) the taxpayer's annual total net consolidated income after taking the deduction is greater than or equal to the 20% individual income tax rate, or his/her individual income tax is declared in accordance with Paragraph 2 of Article 15 of the ITA, so that the declared individual income tax rate is greater than or equal to 20%; or (2) the taxpayer's basic income, calculated in accordance with Article 12 of the Income Basic Tax Act, is greater than the amount of the deduction in Article 13 of that Act

Where the taxpayer or his/her spouse elects to have the tax on his/her salary/wages computed separately in accordance with Paragraph 2, Article 15, the exemption and special deductions on income from salary/wages computed separately will be deducted by the recipient of the salary/wages computed separately, while other exemptions or deductions mentioned previously in this section may not be deducted from the salary/wages computed separately, but instead must be declared for deduction by the taxpayer.

(3) Progressive Tax Rates

The net taxable income of an individual is subject to the following progressive tax rates for FY2015:

FY2015 Progressive Tax Rates of Individual Income Tax		
Net Taxable Income (NTD)	**Tax Rate**	**Progressive Difference (NTD)**
0-520,000	5%	0
520,001 – 1,170,000	12%	36,400
1,170,001 – 2,350,000	20%	130,000
2,350,001 – 4,400,000	30%	365,000
4,400,001 – 10,000,000	40%	805,000
10,000,001 and above	45%	1,305,000

4. Tax on Non-residents

An individual will be deemed to be non-resident in Taiwan if he/she is a foreign national who stays in Taiwan for less than 183 days in a calendar year. A non-resident taxpayer generally is not entitled to any personal exemptions or deductions; income tax is computed on gross income and taxes are collected through withholding at source and other procedures provided in the ITA. The withholding tax rate generally is 20%. Non-residents who have income not subject to withholding tax must file an annual income tax return and pay tax at the prescribed rates.

Depending on the number of days a non-resident is in Taiwan, tax is levied as follows:

(1) Stays of 90 Days or Less

If a non-resident individual is in Taiwan for less than 90 days in a calendar year, compensation received from a foreign employer is exempt from Taiwan income tax; only salary received by the individual from a local employer is subject to the 6% or 18% fiscal withholding tax. No exemptions or deductions are available. The non-resident is not required to file an annual income tax return unless he/she has other Taiwan-source income not subject to withholding tax.

(2) Stays of More than 90 Days, but Less Than 183 Days

Unless otherwise provided in the ITA or an applicable tax treaty, a non-resident individual who is in Taiwan for more than 90 days, but less than 183 days within a calendar year, and who derives income from Taiwan sources is subject to income tax, which is withheld at source.

If an overseas employer pays for services performed in Taiwan by a non-resident, it must withhold 6% or 18% on salary. If the salary payment is withheld on source by the employer, the non-resident individual is not required to file an annual individual income tax.

5. Alternative Minimum Tax

Taiwan imposes an AMT. A resident individual is subject to a separate AMT calculation if he/she earns certain income that is tax exempt or that enjoys certain tax incentives under the ITA or other laws, or if his/her individual basic income exceeds NTD 6.7 million. AMT is calculated as follows:

AMT = (*Regular net taxable income + Non-Taiwan-source income + Insurance payments from life and annuity insurance if the beneficiary is not the insured under the policy + Private fund transaction income + Non-cash donations claimed as itemized deductions + Other subjects announced by MOF – NTD6,700,000) x 20%*

6. Taxation of Stock Options

The MOF has issued the following guidance on the taxation of stock options for Taiwan companies and foreign companies.

(1) Stock options of Taiwan companies

With respect to stock options of Taiwan companies, the spread (i.e. the difference between the exercise price and the fair market value of the stock at the exercise date) of the options is deemed to be “other income” of an employee. This income must be reported in the employee’s individual income tax return in the year of exercise.

(2) Stock options of foreign companies

For stock options of foreign companies, the spread (i.e. the difference between the exercise price and the fair market value of the stock at the exercise date) of the foreign stock is deemed to be “other income” of the employee and is calculated according to the following formula:

Other income = Spread at exercise X (The aggregate length of stay of the employee in Taiwan from the grant date to the vesting date) / Total days from the grant date to the vesting date

The above formula applies only to expatriates, not to Taiwan nationals. A Taiwan resident must report the full amount of the spread in the year of exercise. If the individual does not render services in Taiwan from the grant date to the vesting date, there is no Taiwan-source “other income” for exercising the options.

7. Estate and Gift Tax

The mere fact of individuals' presence in Taiwan is not sufficient to make him/her liable to estate or gift tax. The taxes are levied on the worldwide assets of Taiwan nationals who regularly reside in Taiwan. On the other hand, Taiwan nationals who regularly reside outside the territory of Taiwan, and non-Taiwan nationals are only subject to estate and gift tax to the extent that the inherited or donated assets are within the territory of Taiwan.

For the purpose of estate and gift tax, major taxable assets include: movables, real property and attachments, deposits received by financial institutions, treasury bonds, corporate bonds, stocks or equity investments, rights of claim, patents, trademarks, copyrights and publishing rights, trust interests, minding right and fish right.

A flat rate of 10% is applied to property inherited or given after January 23, 2009.

After January 23, 2009, an exemption of NTD12,000,000 per estate tax return for each taxpayer is allowed. Deductions such as property donated to government agencies or public interest organizations or daily necessities of the decedent not exceeding NT$720,000 are also available. In addition, if a decedent investing in Taiwan qualifies for the Statue for Investment by Overseas Chinese, only 50% of the investment value is taxed.

After January 23, 2009, an exemption of NTD2,200,000 per taxpayer annually is allowed. In addition, some gifts are exempt from the tax, such as gifts between spouse, donations to the government, public schools, non-profit organizations, religious groups and charitable organizations. Gifts to dependents or children may be exempted in some conditions.

Taxpayers of the estate tax are heir(s), legatee or inheritance managers. The taxpayer is required to file tax return within six months from the date of death, and if necessary, may apply for an extension of three months before the deadline.

The donor is generally the payer of the gift tax. Gift tax is calculated based on the fair market value of the taxable assets on the date of transfer, less exemptions and deductions.

A taxpayer of estate tax or gift tax has to pay the tax due within two months from the date of receiving the tax notice, and if necessary, may apply to the competent tax authority for an extension of two months before the deadline. If tax payable amounts to NTD300,000 or more, and the taxpayer has difficulty paying the full amount in cash, the taxpayer may apply for payment by installments.