

Direct Investment in Taiwan

By Daryl Lai and James Hung

Taiwan has perhaps one of the best geographical locations in Asia comparable to Singapore – it sits directly beneath Greater China and is at the doorway in between Hong Kong and the Far Eastern countries of Korea and Japan where it is just a stone's throw away in flight from all of them.

The Taiwan economy is the seventh largest in Asia and 22nd-largest in the world by purchasing power parity (PPP). It is included in the advanced economies group by the International Monetary Fund and gauged in the high-income economies group by the World Bank. The economy of Taiwan ranks the highest in Asia for 2015 Global Entrepreneurship Index (GEI) for specific strengths.

Taiwan has an extremely active industry in R&D and product innovation. It is the second largest IT hardware manufacturer in the world. Bloomberg and the Economist reports Taiwan as the most technologically advanced computer microchip maker in the world. It has more than 70% of the world's production value in silicon wafer OEM. It's production value of PCs is third in the world.

There is an abundance of outstanding highly educated technology, engineering, and design talents in the Taiwanese workforce against relatively cheap wages as compared to Japan, Korea, Singapore, the US and Western Europe. More than 25% of all University degrees earned in Taiwan are in engineering. This makes the country ideal for technology start ups and companies with a focus in R&D and innovation which are heavily reliant on dependable, skilled and specialized labour.

The figures for direct foreign investment (FDI) into Taiwan are US\$11,440,234,000 over 3621 FDI approved projects in 2018 and US\$11,195,975,000 over 4,118 FDI projects for 2019. Taiwan has US\$ 478.13 billion of foreign exchange reserves as of Dec 2019.

Foreign nationals intending to invest in Taiwan by incorporating a company here, by acquiring shares or by contributing capital to a Taiwanese company, must apply to the relevant government authority for prior approval under the Statutes for Investment by Foreign Nationals (SIFN). Capital contributions can be by way of cash, machinery, or intellectual property rights. Taiwan law contains a Negative List for Investment by Overseas Chinese and Foreign Nationals that provides a list of industries that are totally prohibited to foreign investors and those that requires further special permission from the individual government authorities overseeing that specific field.

Those that are completely not available include the manufacture of chemicals and base metals, motorbus and taxi transportation, postal services, radio and broadcasting, financial services, and legal and accounting. Those that are restricted include animal and husbandry, forestry, electricity and gas supply, water supply, air transportation and ground support, and ocean transportation.

Companies who obtained approval via the SIFN has Foreign Investment Approved (FIA) status and are entitled to certain minor privileges. This would include the right to possess up to 100% shareholding in a Taiwan resident company, and the right to remit all profits without subject to foreign exchange control rules.

The Corporate income tax for resident companies in Taiwan for the current fiscal Year at the time of this writing is 20% for all income above NT\$120,000 and not exceeding 50% of the overall tax liability. A surtax for 5% is levied on undistributed profits in the event where the company decides to retain them. There is a 21% withholding tax imposed on dividends distributed to a foreign investor regardless of whether the investment has been approved under the SIFN.

Tax deductions and savings for companies performing R&D operations are available through a R&D Tax Credit system under the Taiwan Statute for Industrial Innovation (SII) for up to (i) 15% of qualified R&D expenses for that year; or, (ii) 10% of qualified R&D expenses for that year which can also be carried forward for the next 2 years. Investors hoping to benefit from this scheme must however make prior application and obtain approval from the relevant tax authorities.

The Taiwan government attaches great emphasis on the protection of Intellectual Property rights. There is a specialized Intellectual Property Court in the Taiwan legal system dealing with relevant disputes and an IP Protection Police Unit handling complains and enforcement issues. Taiwanese law offers IP rights protection for 20 years on Patents for Inventions, 12 years on Patents for Design, 10 Years on Patents for Utility Models, and 10 years on Trademarks. All protection will start to accrue from the date of approval of the application. Under Taiwanese law, criminal liability may attach to the violations of certain IP rights.

The writer of this comprehensive write up hopes that this has been useful for your considerations.

PLEASE CONTACT the writer in the event of you are contemplating a possible investment in Taiwan and have certain questions in mind before proceeding further.

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