



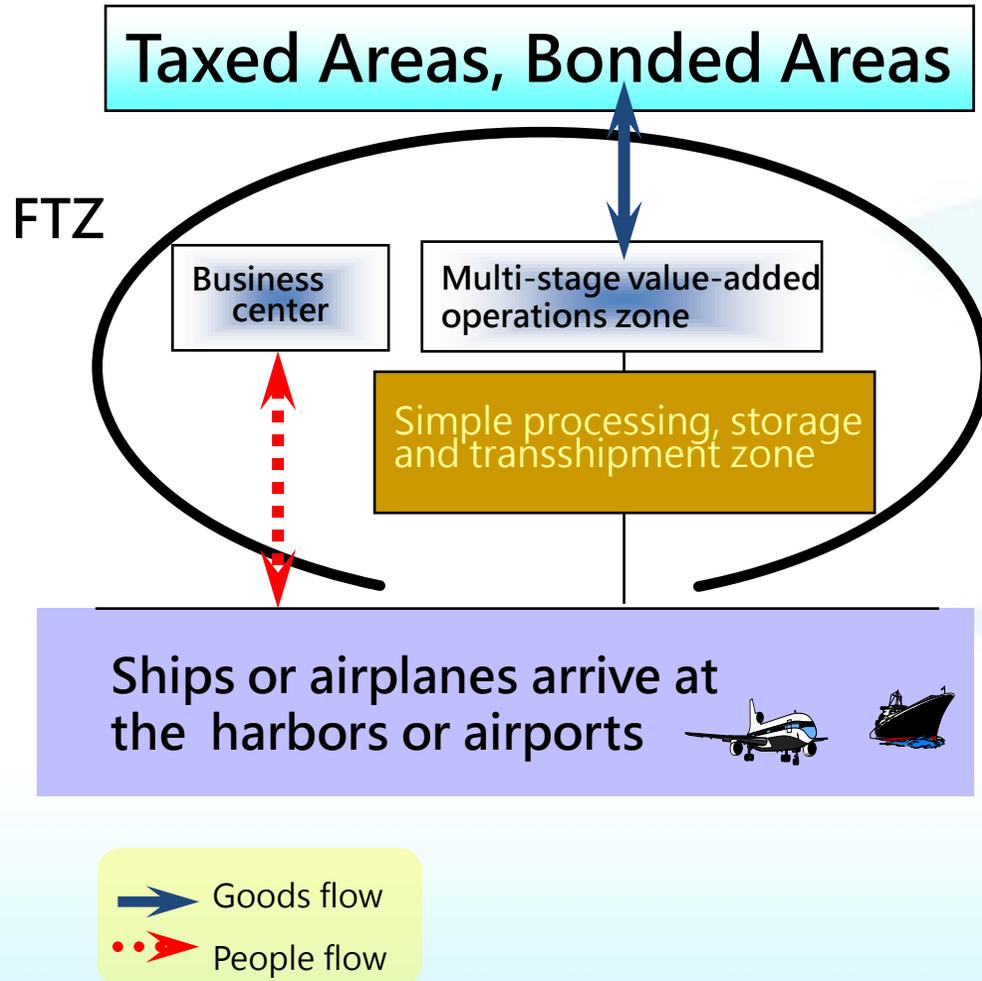
Taxation Measures In Free Trade Zone

Maritime Port Bureau, MOTC



Jan, 2019

The Planning of FTZ

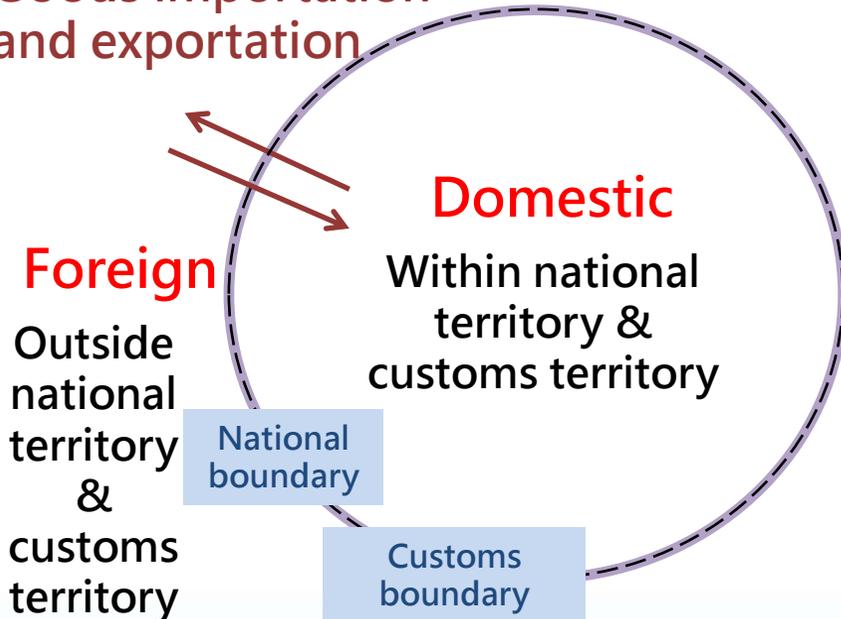


- **“Within national territory but outside customs territory”** special zones: To alleviate the hindrance of goods flow, business flow, people flow and provide better investment environment.
- Create **“transshipment and value added”** special zones: To integrate the functionality of both harbors and airports together with the demanding of supply chain management in order to enhance the enterprises’ superiority in competition.
- Pilot special zones for **“comprehensive trade liberalization”** : Highlighted self-management from enterprises. To attain the goal of trade liberalization steps by steps through the pilot special zones.

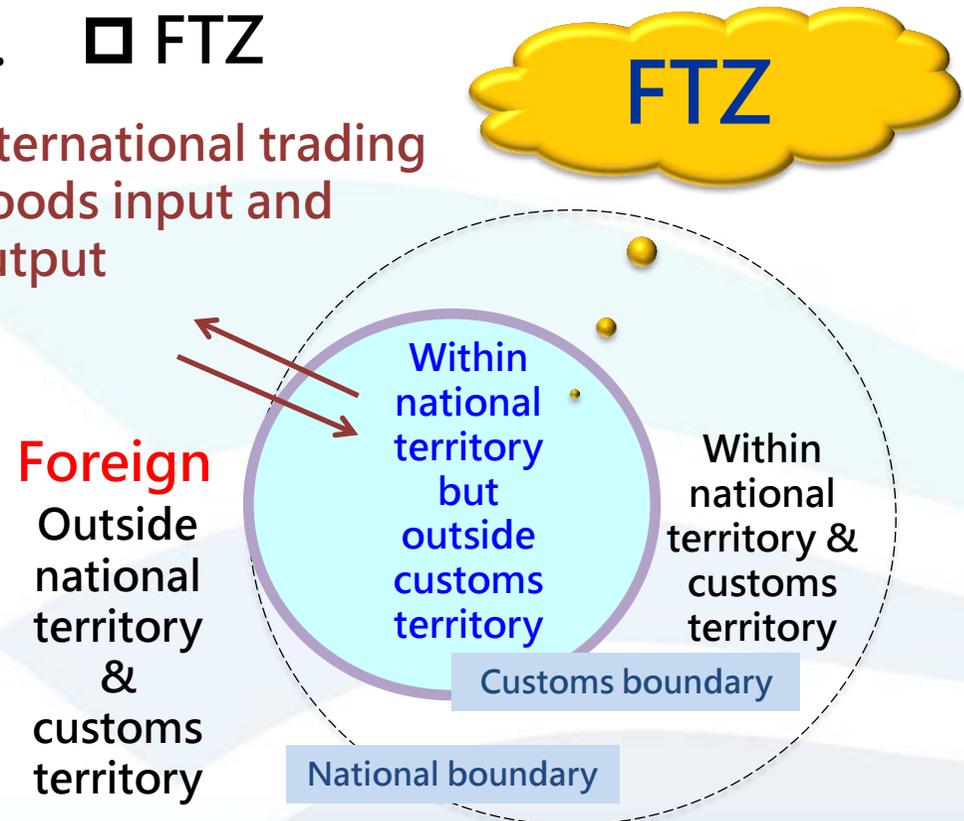
System Planning of FTZ (1/2)

□ Taxed / Bonded Areas VS. □ FTZ

International trading
Goods importation
and exportation

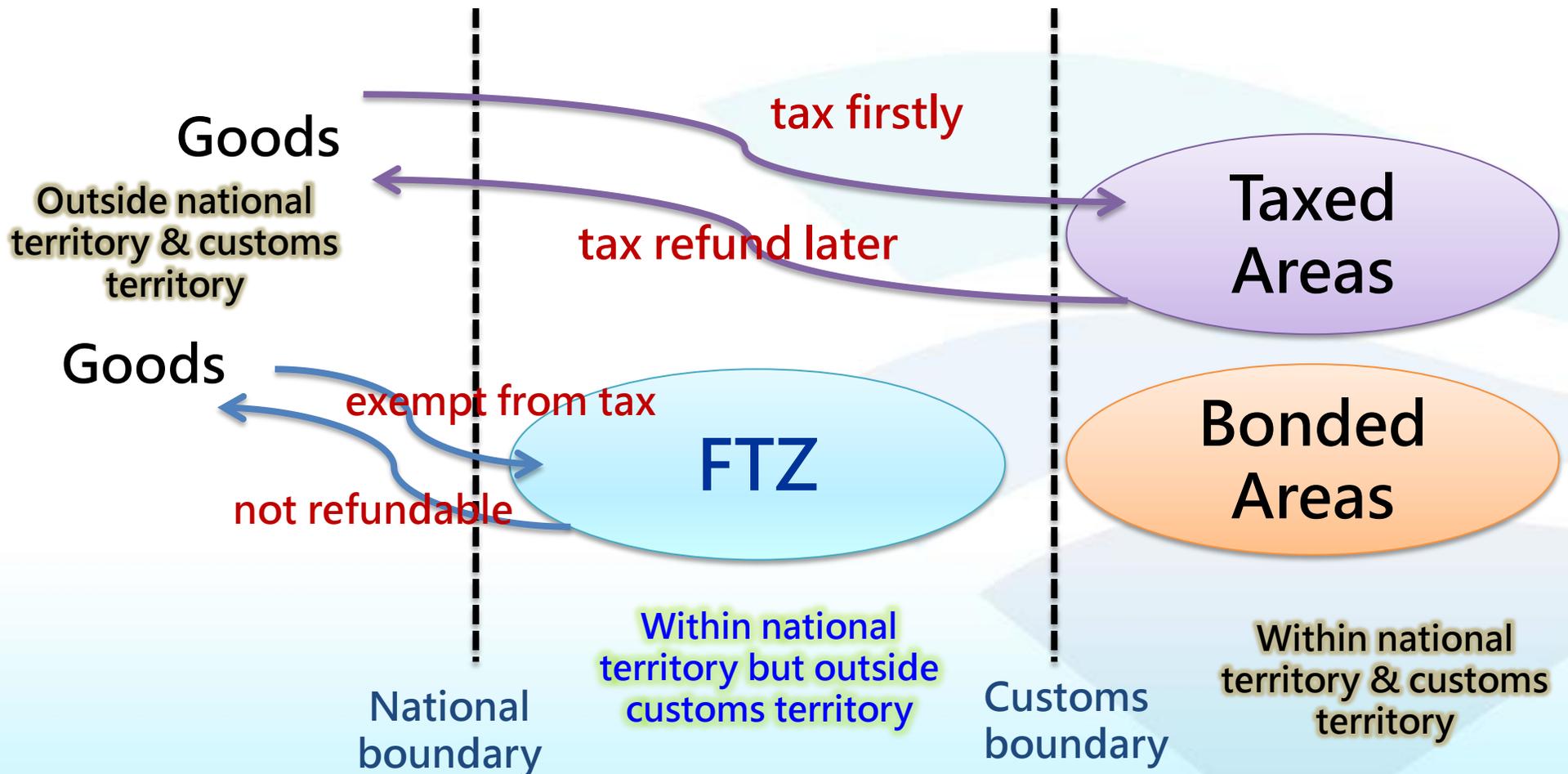


International trading
Goods input and
output



System Planning of FTZ (2/2)

- Simplify the imposition of import/export goods

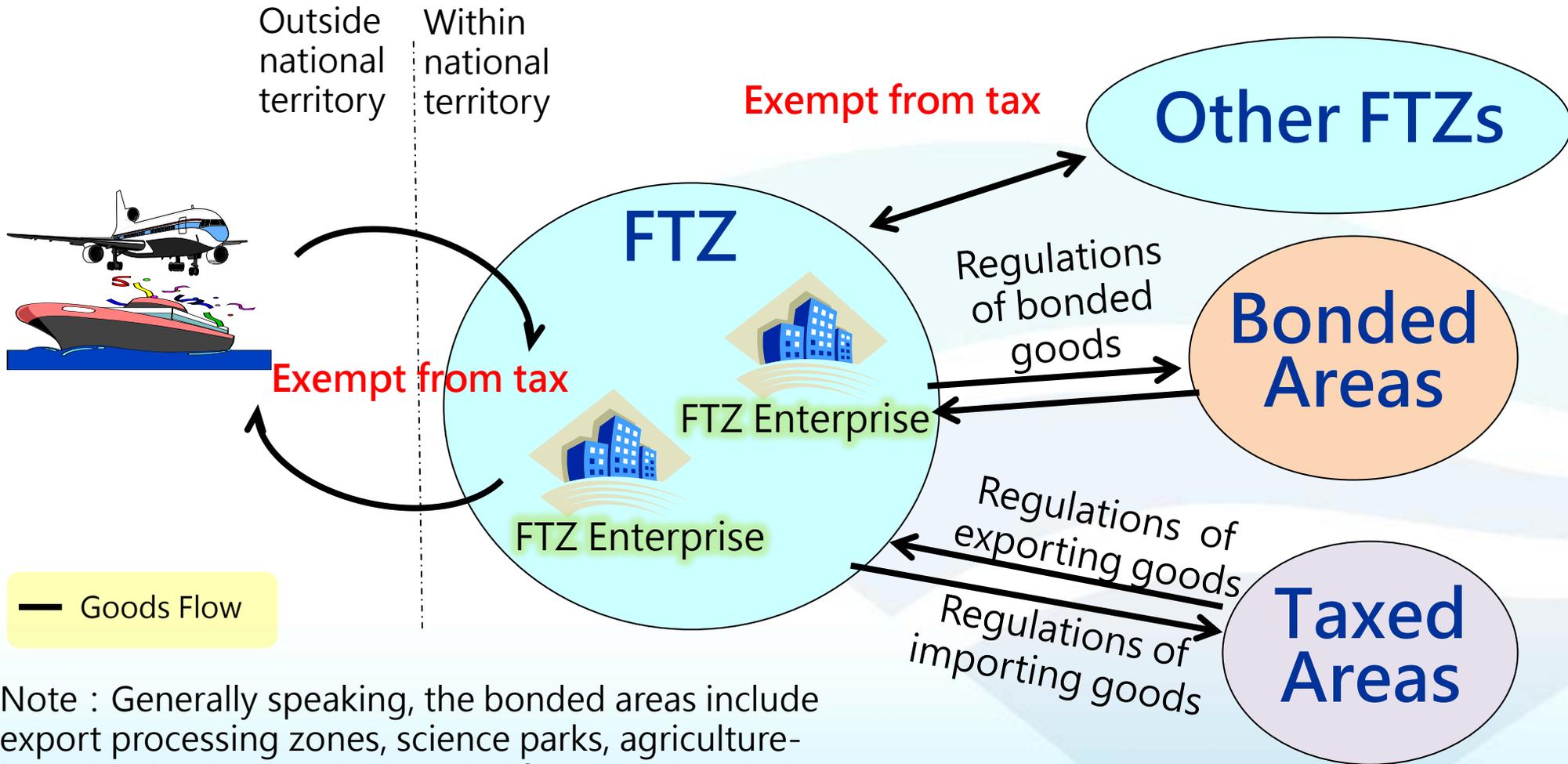




1

*The Imposition on
Imported and
Exported Goods*

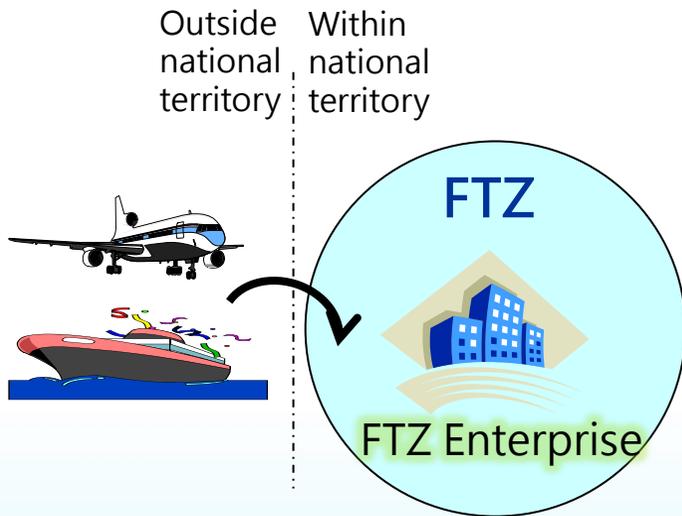
1.1 The Imposition on Imported and Exported Goods



Note : Generally speaking, the bonded areas include export processing zones, science parks, agriculture-based technology parks, bonded factories, bonded warehouses, and logistics centers.

1.2 Foreign Goods Transport into FTZ

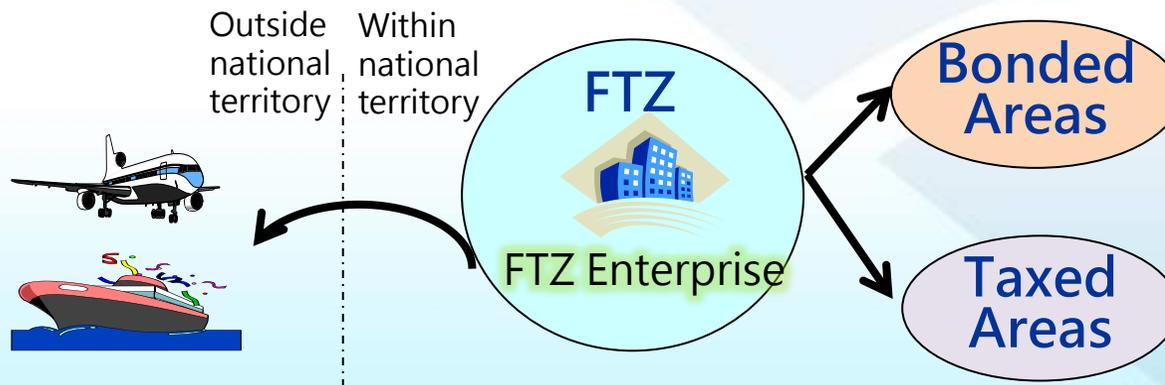
- Foreign goods, machinery and equipment to be transported from overseas to a free trade zone by a FTZ enterprise for its own use shall be **exempted from relevant taxes and fees.** (§21 I、II)



	Type of taxation	Transport into FTZ
Foreign goods, private-used machinery and equipment	Customs duty	Be exempted
	Commodity tax	
	Tobacco and wine taxes	
	Public health and welfare dues on tobacco products	
	Trade promotion services charges	
	Harbor services dues	
	Value-added tax (VAT)	

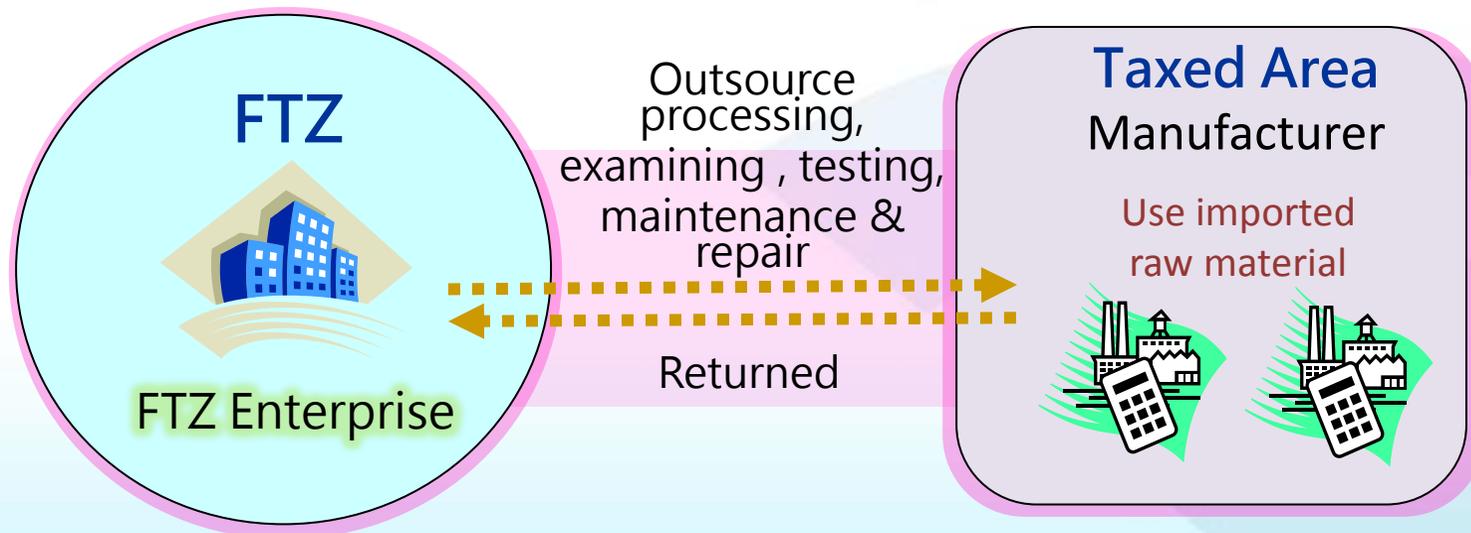
1.3 FTZ goods transport into Taxed / Bonded Areas

- ❑ Goods to be transported to other countries or bonded areas by a FTZ enterprise are **exempted from trade promotion services charges** in accordance with Trade Law. (§22)
- ❑ Goods to be transported from FTZ to a taxed area by a FTZ enterprise shall be subject to the assessment and levy of customs duty, commodity tax, business tax, tobacco and wine tax, public health and welfare dues on tobacco products, trade promotion services charges, and harbor services dues in accordance with relevant acts and regulations applicable to import of goods. (§23)
- ❑ Goods to be transported to a bonded area from a FTZ by a FTZ enterprise shall be **exempted from relevant duties and taxes** in accordance with the relevant acts and regulations applicable to bonded goods. (§27)



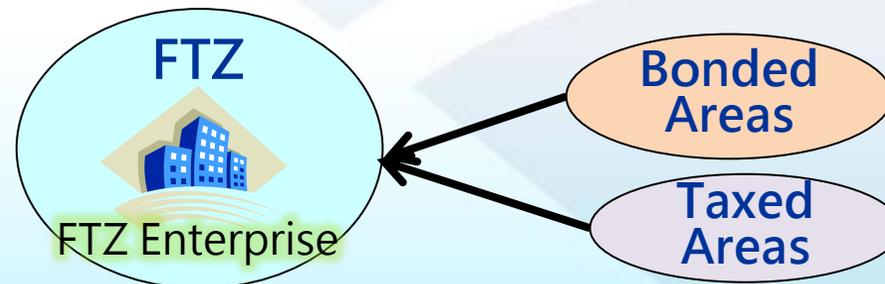
1.4 Goods, Machinery or Equipment transport from FTZ to Taxed Areas

- ❑ Where duty/tax free goods, machinery or equipment of a FTZ enterprise needs to be transported to a tax area for repair, test, inspection, and/or commissioned processing, the **tax bonding may be exempted.**(§25 I)
- ❑ The (not restricted) raw material which is imported to be used in processing in taxed area might be **applicable to relevant duty drawback** in accordance with “The Regulations Governing Offsetting or Refund of Duties and Taxes on the Raw Materials of Export Products” .(§26 I 、 II)



1.5 Goods/Machinery/Equipment transport from Taxed/Bonded Area to FTZ

- ❑ Deliver goods from a taxed or bonded area into FTZ by a FTZ enterprise are **exempt from trade promotion services charges.(\$22)**
- ❑ Goods, machinery or equipment which is for operation and private-used only and transported from a taxed area to a FTZ by a FTZ enterprise shall be considered as exportation of such machinery or equipment, and shall be **applicable for reduction, exemption or duty drawback.(\$24 I)**
- ❑ Imported-duty-paid goods or non-bonded domestic goods transported from a taxed area to a FTZ by a FTZ enterprise for its operations shall be **exempted from customs duty** if said goods are transported back to a tax area within five years from the next day of transportation. However, where there is tax free or bonded goods added to said goods, then the additional tax or bonded goods are subject to custom duty and relevant taxes.(\$24 II)



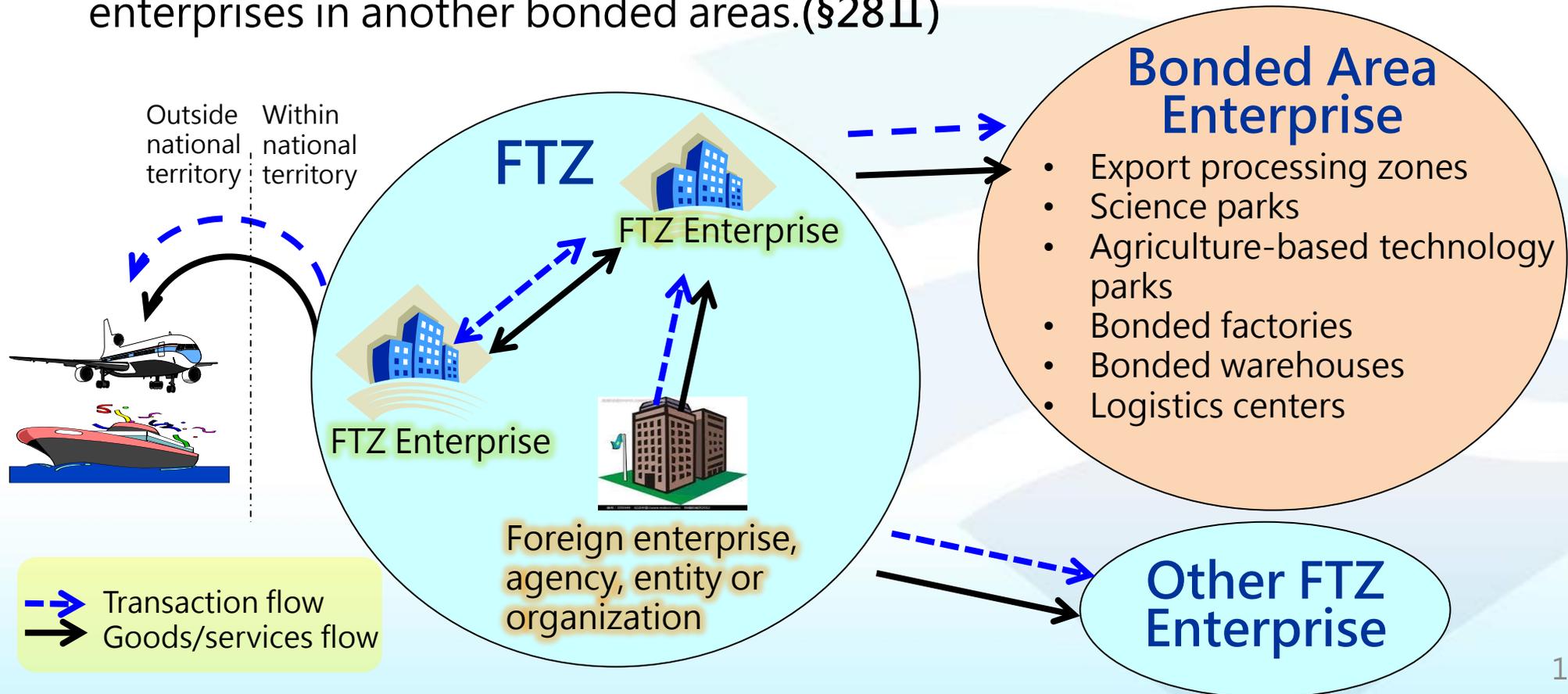
An aerial photograph of a large port facility, likely Taichung Port, showing a massive container yard filled with colorful shipping containers, several large cargo ships docked at piers, and various industrial buildings and infrastructure. The port is situated along a coastline with a clear blue sky and ocean in the background. A large, stylized number '2' is overlaid on the left side of the image.

2

*The Imposition on
Value-added Tax*

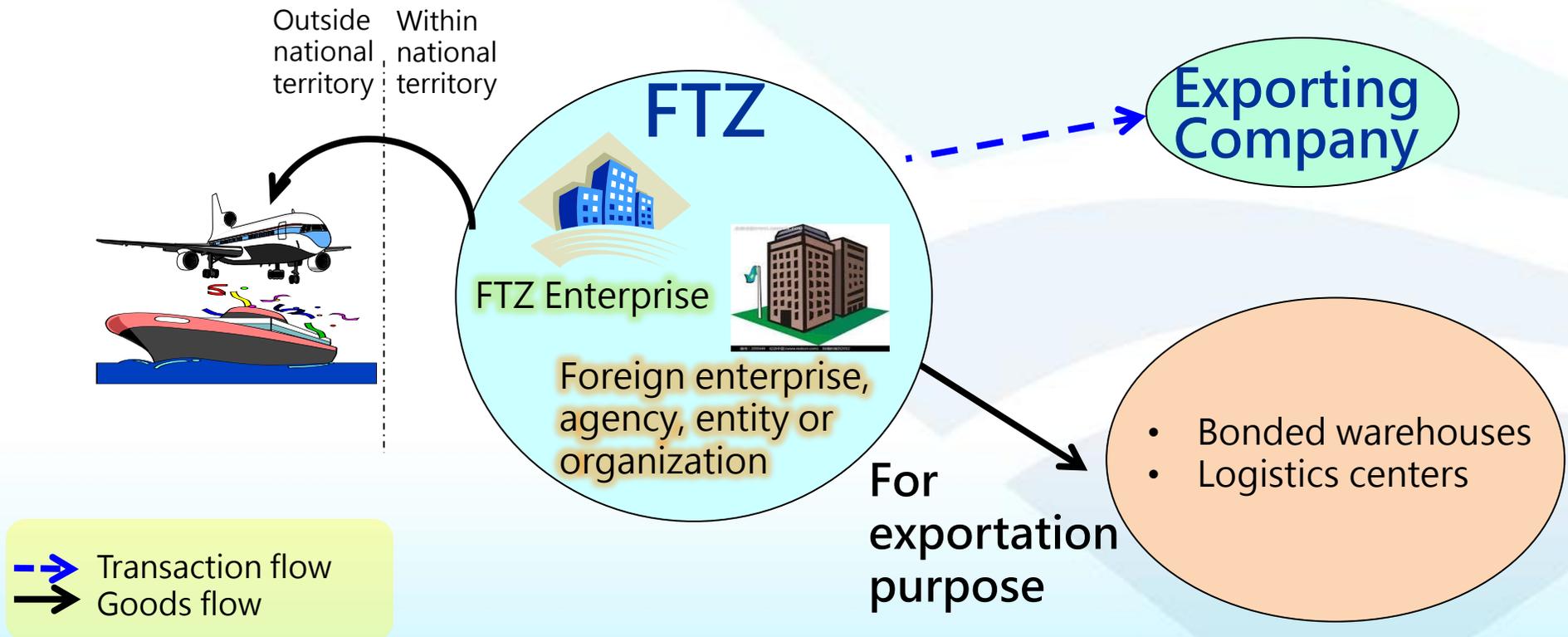
VAT Rate at Zero(1/4)

- Goods/services sold by a FTZ enterprise or by a foreign enterprise, agency, entity or organization to another FTZ enterprise in the same FTZs, or to the FTZ enterprise(s) in another FTZ, or to foreign customers, or to the enterprises in another bonded areas. (§28II)



VAT Rate at Zero(2/4)

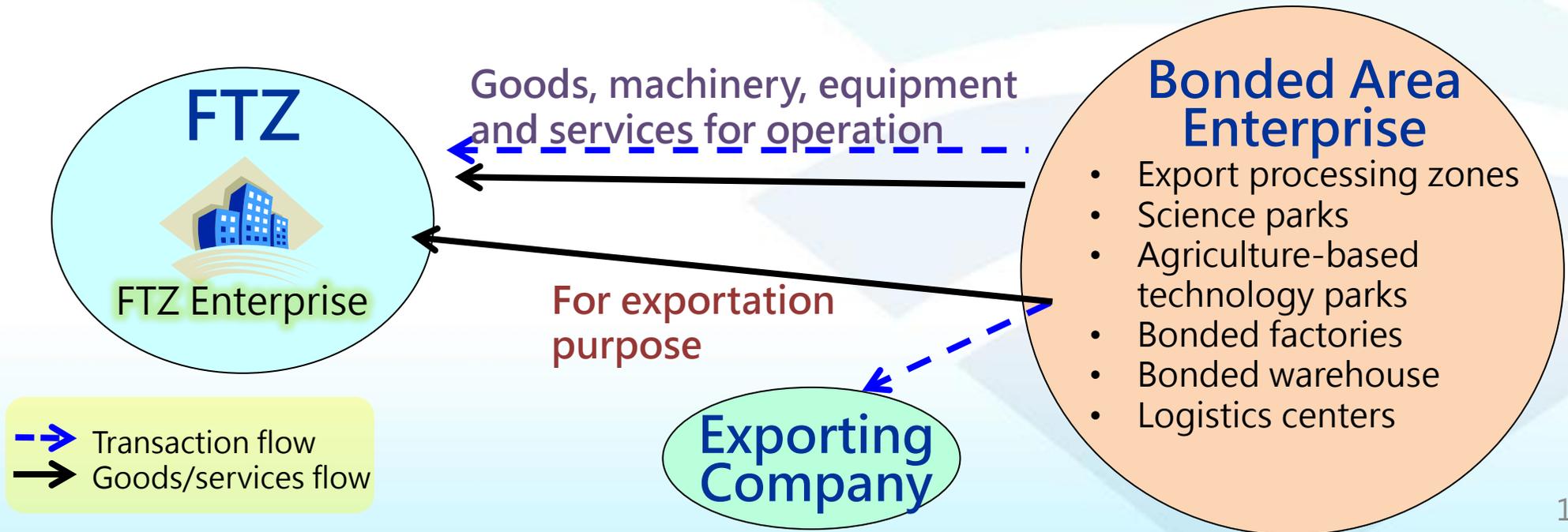
- ❑ Goods sold by a FTZ enterprise or by a foreign enterprise, agency, entity or organization to an exporter for direct export or storage in a bonded warehouse or a logistics center for exporting, instead of shipping the same to any taxed area. (§28II)



VAT Rate at Zero(3/4)

□ Bonded area enterprise

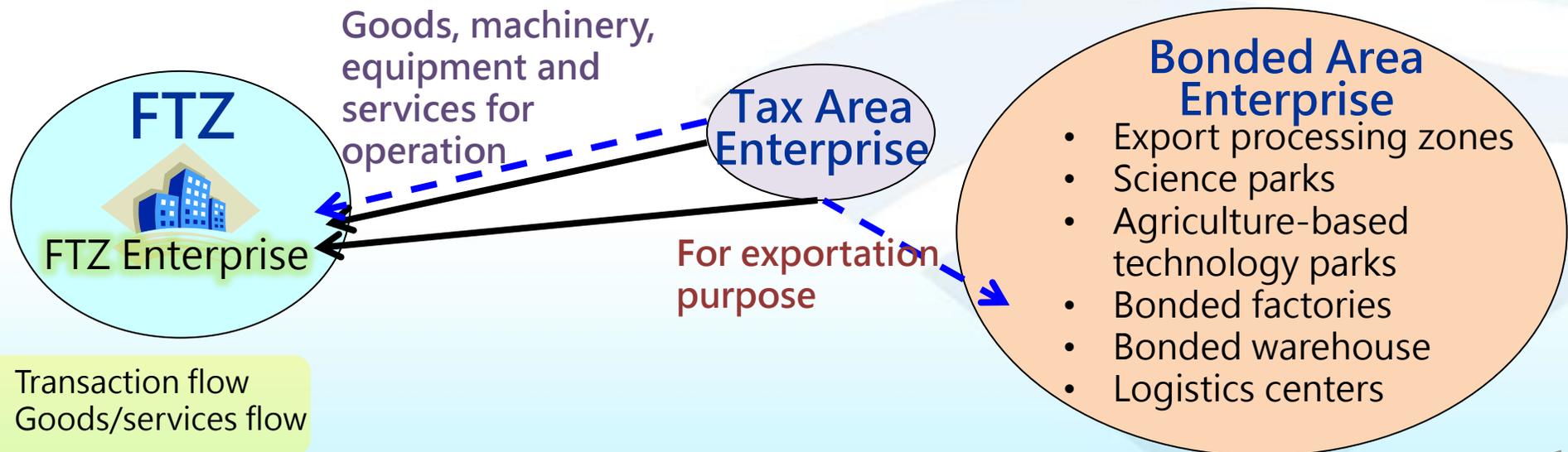
- Sell the goods/machinery/equipment to FTZ enterprise for operation. (§28 I ①)
- Sell the goods stored in FTZ enterprise for exportation purpose to exporting company. (§28 I ②)
- Provide services to FTZ enterprise for operation-related purpose. (§28 I ④)



VAT Rate at Zero(4/4)

❑ Taxed area enterprise

- The services fees from providing repair, test, inspect, and/or commission processing services to a FTZ enterprise or foreign enterprise/agency/group/organization. (§26Ⅲ)
- Sell goods/machinery/equipment to a FTZ enterprises for operation.(§28 I ①)
- Sell the goods stored in FTZ enterprise for exportation purpose to a bonded area enterprise.(§28 I ③)
- Provide operation-related services to a FTZ enterprise.(§28 I ④)



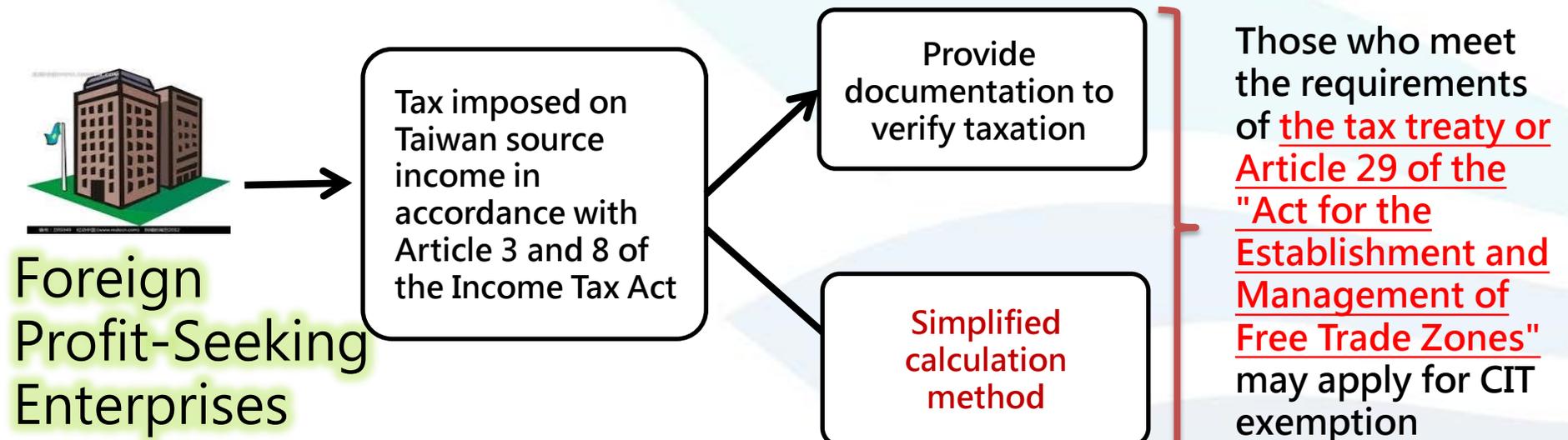
An aerial photograph of the Kaohsiung Port and surrounding industrial area. The port is filled with large cargo ships, container stacks, and cranes. In the background, there are numerous industrial buildings and factories. The sky is blue with some clouds.

3

*Income Tax for Foreign
Profit-Seeking
Enterprises*

3.1 Corporate income tax mechanism

□ Corporate Income Tax (CIT) Exemption for Foreign Profit-seeking Enterprises



3.2 Simplified Calculation Method

□ Subject of Application

- Those who conduct supplementary (supporting) activities, such as importing, storage, simple processing and others within Taiwan territory
- Have little economic nexus with Taiwan
- Taiwan contribution rate is relatively minor and are unable to provide accounting books, documentation and other relevant materials

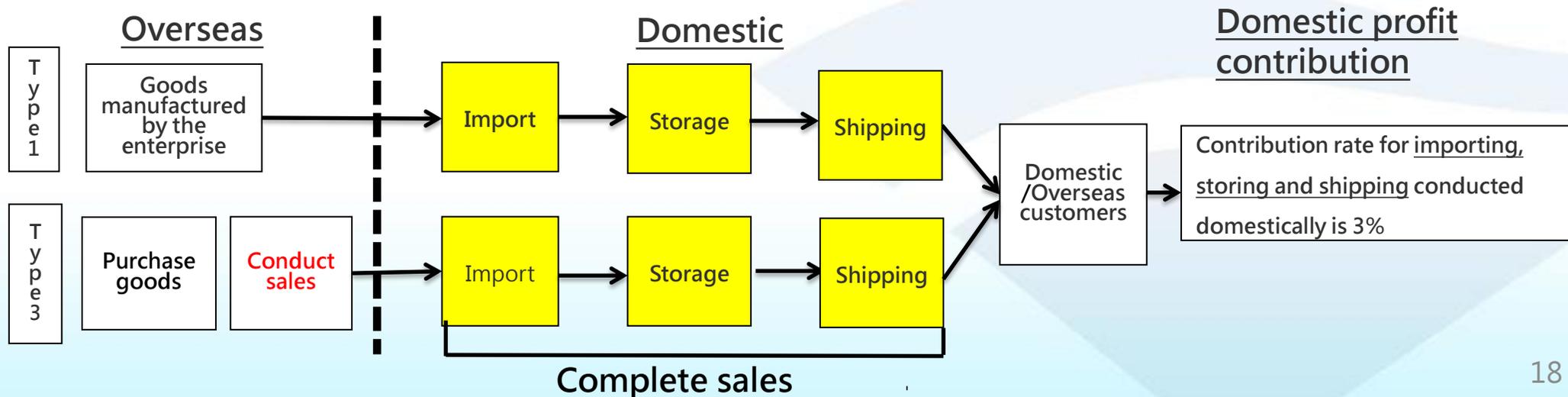
$$\text{CIT amount} = \text{Domestic and overseas total operating profit} \times \text{Domestic contribution rate} \times \text{CIT rate}$$

- Total operating profit: Estimated based on the [profit standard of the same trade concerned](#).
- Domestic contribution rate: Estimated based on [Tax Ruling 10600664060, Ministry Of Finance, April 17, 2018](#).

3.3 Simple Formula for Contribution Rate (1/3)

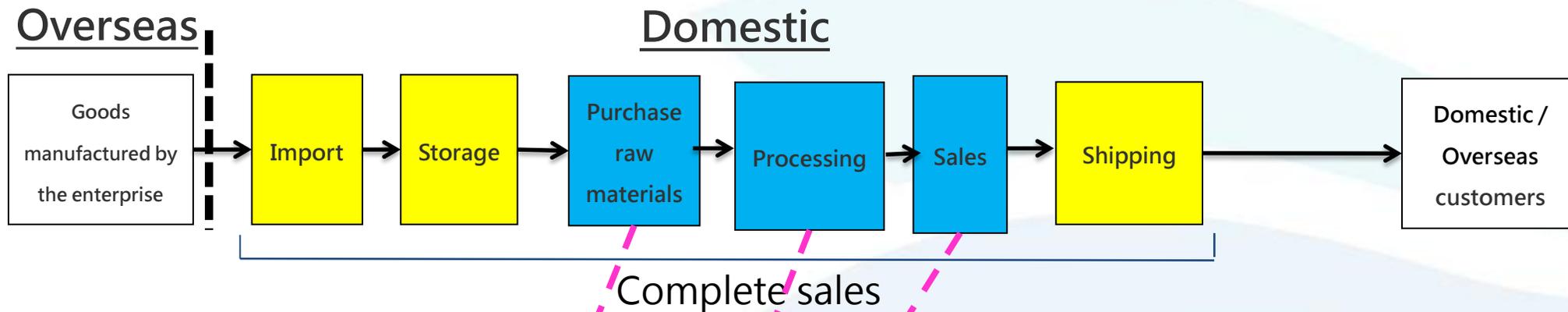
□ Applicable Types

- Type 1: Import and store their goods (including finished products, semi-finished goods and raw materials, the same applies below) that are manufactured overseas, complete the sales while the goods are within Taiwan territory (regardless of the place of sale), and shipped to either domestic or overseas customers.
- Type 3: Import and store their goods that are purchased abroad, complete the sales overseas while the goods are within Taiwan territory, complete the sales, and then shipped to either domestic or overseas customers.



3.3 Simple Formula for Contribution Rate (2/3)

- Type 2: Import and store their goods that are manufactured overseas, conduct further manufacturing and processing (including the purchase of domestic and overseas raw materials or semi-finished products to be used in the manufacturing and processing), complete the sales while the goods are within Taiwan territory, and then shipped to either domestic or overseas customers.



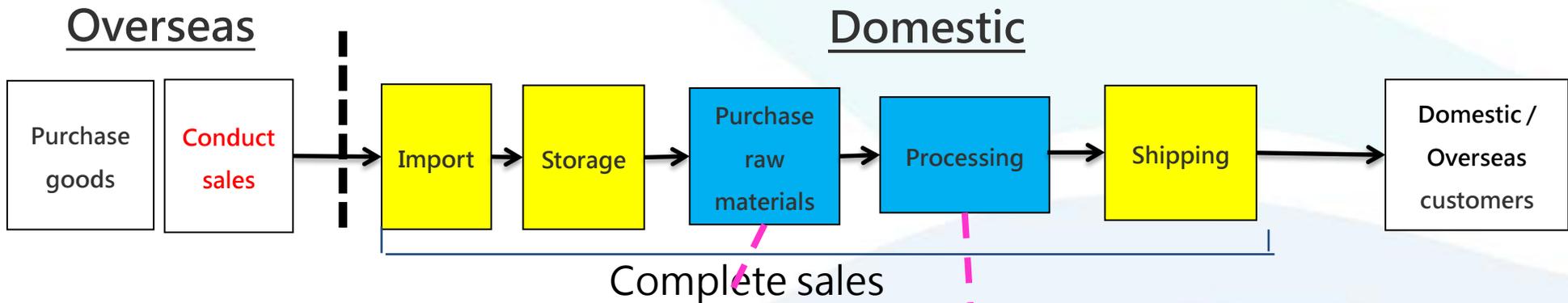
Simple Formula for Domestic Profit Contribution:

$$3\% + \frac{\text{Costs of conducting "Purchase", "Manufacturing and processing (not including the raw materials cost domestically)", "Sales" and other functions within Taiwan territory}}{\text{Domestic and overseas total cost (A)}}$$

A=Cost of conducting import, storage, purchase, manufacturing and processing, sales, shipping and other functions domestically + Cost of raw materials purchased domestically + Other related costs overseas (their own goods manufactured overseas or the taxable value on the import declaration form for overseas raw materials that will be used in the domestic processing)

3.3 Simple Formula for Contribution Rate (3/3)

- Type 4: Import and store their goods that are purchased overseas, conduct further manufacturing and processing (including the purchase of domestic and overseas raw materials or semi-finished products to be used in the manufacturing and processing) domestically, conduct and complete the sales overseas while the goods are within Taiwan territory, and shipped to either domestic or overseas customers.



Simple Formula for Domestic Profit Contribution:

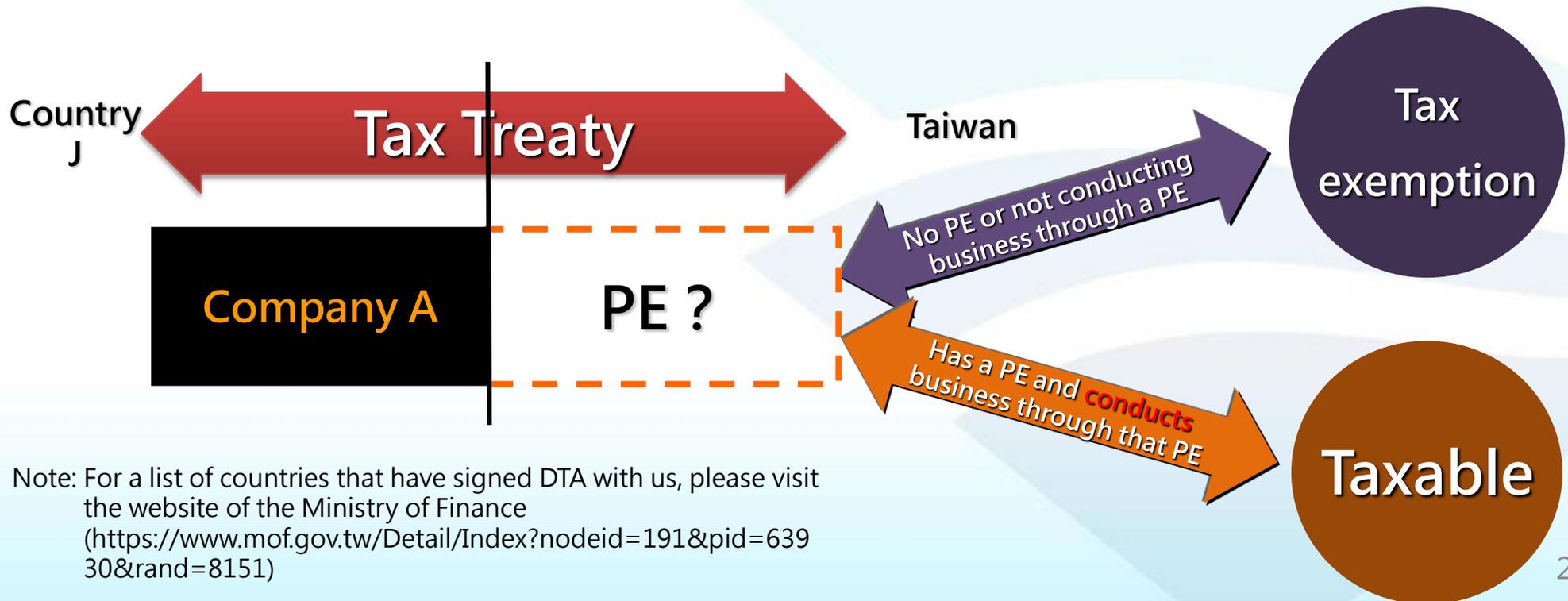
$$3\% + \frac{\text{Costs of conducting "Purchase", "Manufacturing and processing (not including the raw materials cost domestically) "and other functions within our territory}}{\text{Domestic and overseas total cost (A)}}$$

A=Cost of conducting import, storage, purchase, manufacturing and processing, sales, shipping and other functions domestically + Cost of raw materials purchased domestically + Other related costs overseas (their own goods manufactured overseas or the taxable value on the import declaration form for overseas raw materials that will be used in the domestic processing)

3.4 Provisions from Double Taxation Agreement

□ Tax Exemption

- For the enterprises of a country that has signed a double taxation agreement (DTA) with Taiwan, and do not have permanent establishments (PEs) in Taiwan or their profit were not driven by PE, such profit is exempt from tax.



Note: For a list of countries that have signed DTA with us, please visit the website of the Ministry of Finance (<https://www.mof.gov.tw/Detail/Index?nodeid=191&pid=63930&rand=8151>)

3.5 Article 29 of the Act for the Establishment and Management of Free Trade Zones

□ Provision 1 of Article 29

➤ Entity applicable for tax exemption:
For profit-seeking enterprises conducting only preparatory or supplementary activities domestically (focus on operations out of Taiwan)

➤ Scope of tax exemption:
Goods that are purchased, imported, stored or delivered in the FTZ, the total sales shall be exempted from corporate income tax when sold

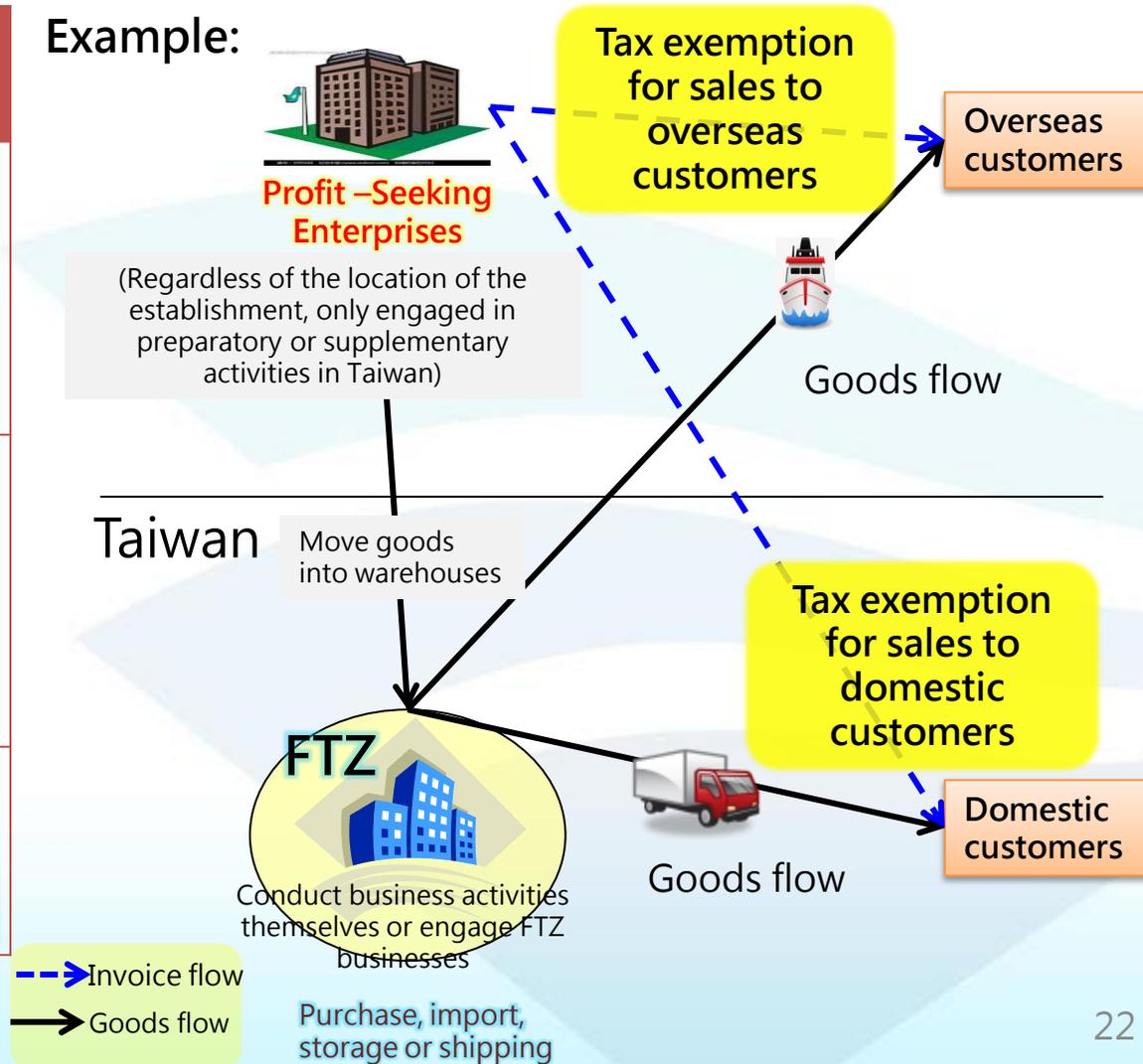
➤ Applicable business model

International trade

Logistics distribution

Procurement center

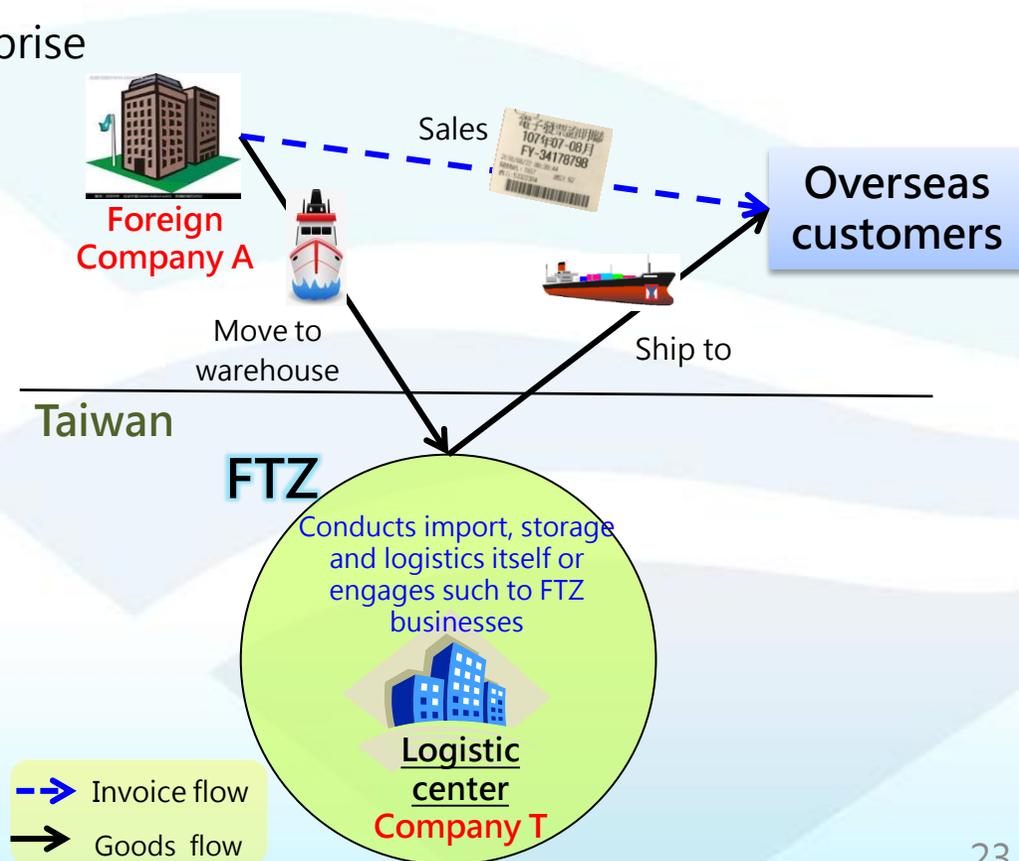
Example:



3.6 Case A - Foreign Enterprise Conduct Logistics Activities Domestically

- Scenario: Foreign mobile phone wholesaler, conducts sales abroad and import, storage or shipping (referred to as **logistics activities**) of goods domestically or engages such to a FTZ enterprise, and then sells such goods to overseas customers for \$12 million while the goods are within Taiwan territory.
- Taxation differences for CIT of a foreign enterprise

Foreign enterprise conducts logistics activities domestically		
	Tax ruling from April 2018	FTZ
Sales revenue	1,200	1,200
profit standard of the same trade concerned	10%	
Domestic and overseas total operating profit	120	-
Profit contribution rate	3%	
Taxable income	3.6	
CIT (tax rate : 20%)	0.72	0

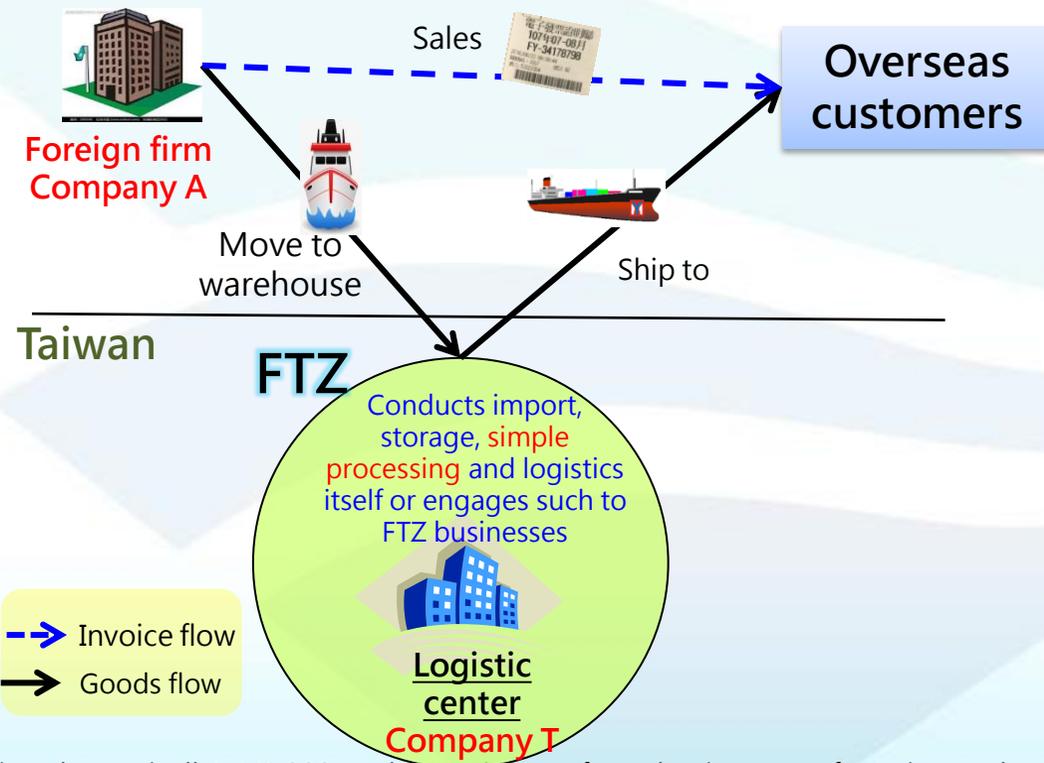


3.6 Case B - Foreign Enterprise Conduct Logistics and Processing Activities Domestically

- Scenario: Foreign enterprise manufacturing electronic components, conducts logistics and simple processing activities of goods domestically itself or engages such to a FTZ enterprise, and sells to overseas customers for \$12 million while the goods are in our territory.
- Taxation differences for CIT of a foreign enterprise

Foreign enterprise conducts **logistics** and **processing** activities domestically

	Tax ruling from April 2018
Sales revenue	1,200
Profit standards of other firms in the same industry	10%
Domestic and overseas total operating profit	120
Contribution rate	3%+10% (Note)
Taxable income	15.6
CIT (20%)	3.12



Note: $3\% + ((100 \text{ as the cost of conducting manufacturing and processing domestically}) / (1,000 \text{ as the total cost of conducting manufacturing and processing both at home or abroad})) = 13\%$

Reference

- Article 21-29 of the Act for the Establishment and Management of Free Trade Zones
- Tax Ruling 10600664060, Ministry Of Finance, April 17, 2018

