

A Short Version for Levying Income Tax on Cross-Border Electronic Services



Taxation Scope of Income Tax



Effective from taxable year 2017, the sales amounts collected by foreign profit-seeking enterprises selling cross-border electronic services shall be subject to new measures



Foreign profit-seeking enterprises or organizations



Buyers within the R.O.C.
(Individuals, profit-seeking enterprises or organizations residing in the R.O.C.)

What are **electronic services**?

Used downloaded

The services used are downloaded via the Internet or other electronic tools and saved to computers or mobile devices.



Used online

The services are used online or via other electronic tools without being saved into any devices (such as online games, movies, etc.) .



Delivered by physical locations

Selling services which are delivered by physical locations (e.g., accommodation services, automobile renting services).



Three steps of levying income tax on cross-border electronic services

Step 1

Determine the income is recognized as from sources in the R.O.C.



Step 2

Calculation of the taxable income



$(\text{Revenues} - \text{Costs and Expenses}) \times \text{Domestic Profit Contribution Ratio}$

Step 3

For income within the withholding tax scope

: the tax withholder

withhold the tax at the time of payment

For income not within the withholding tax scope

: the foreign profit-seeking enterprise

shall file the income tax return and make payment in accordance with the regulations concerned by itself or through a tax agent

What kind of income will be recognized as income from sources in the R.O.C.? via the Internet or other electronic tools



Foreign Platform Operator (PO)

Establishes platforms on the Internet for both domestic and/or overseas buyers and sellers to conduct transactions via the Internet as well as collect service fees from platform users. One of the transaction parties is an individual, profit-seeking enterprise, organization, institution, or entity (hereafter the term “organization” includes institution and entity) within the R.O.C., the sales amounts collected therefrom shall be recognized as income from sources in the R.O.C.

Foreign Non-Platform Service Provider

If goods are manufactured and completed outside the R.O.C. and if an individual, profit-seeking enterprise, or organization within the R.O.C. participates or assists in the deal so that buyers within the R.O.C. could use the goods, the sales amounts collected therefrom shall be recognized as income from sources in the R.O.C.

Foreign Non-Platform Service Provider

Selling services which are delivered by physical locations (e.g., accommodation services, automobile renting services) and the locations of delivering services or running the business are within the R.O.C., the sales amounts collected therefrom shall be recognized as income from sources in the R.O.C.

Foreign Non-Platform Service Provider

Offers real-time, interactive, handy, and continuing electronic services (e.g., online games, online films and TV series, online music, online video, online advertisements, etc.) to domestic buyers within the R.O.C., the sales amounts collected therefrom shall be recognized as income from sources in the R.O.C.



Note 1: These incomes are recognized from sources in the R.O.C. because the relating transactions have economic nexus with the R.O.C.

How to calculate the taxable income

The accounting books and documents are provided

$$\left(\begin{array}{l} \text{Net Operating} \\ \text{Revenues} \end{array} \right) - \begin{array}{l} \text{Costs and} \\ \text{Expenses} \end{array} \times \text{DPCR} \pm \begin{array}{l} \text{Non-Operating} \\ \text{Revenues} \\ \text{Non-Operating} \\ \text{Expenses} \end{array}$$

The accounting books and documents are not available

$$\begin{array}{l} \text{Net Operating} \\ \text{Revenues} \end{array} \times \begin{array}{l} \text{Assessed} \\ \text{NPR} \end{array} \times \begin{array}{l} \text{Assessed} \\ \text{DPCR} \end{array} \pm \begin{array}{l} \text{Non-Operating} \\ \text{Revenues} \\ \text{Non-Operating} \\ \text{Expenses} \end{array}$$



Note 2: Foreign profit-seeking enterprises selling cross-border electronic services shall first apply for the Net Profit Ratio (NPR) and Domestic Profit Contribution Ratio (DPCR), and then the competent tax authority will assess the NPR and DPCR.

Net Profit Ratio and Domestic Profit Contribution Ratio

Net Profit Ratio (NPR)

Where the accounting books and documents are provided, the taxable income amount shall be calculated by deducting related costs and expenses from the verified gross revenue sources in the R.O.C.

Where the accounting books and documents are not available, but contracts, major business items, and onshore and offshore transaction flows are provided:

- 1) Providing non-platform electronic services: the taxable incomes are calculated by gross revenue sources from the R.O.C. multiplied by the NPR of the profit standard of the same trade concerned applicable to the foreign profit-seeking enterprise.
- 2) Providing platform electronic services: the applicable NPR is 30%.

For foreign profit-seeking enterprises not applicable to the above Items 1 and 2, their taxable incomes shall be calculated based on an NPR of 30%.

If the actual NPR assessed by the taxation authority is higher than the verified NPR based on the above Items 2 and 3, the actual NPR assessed shall be applied to calculate taxable incomes.

Domestic Profit Contribution Ratio (DPCR)

When the whole transaction flow is onshore or the services are both provided and used within the territory of the R.O.C.: 100%

When there are sufficient documents to prove a clear division of the onshore and offshore transaction flows as well as the ratio of the contribution attributed to the services performed within the R.O.C.: the DPCR shall be determined based on the supporting documents provided.

When the first item is not met and there is no sufficient documentation to provide: 50%.

If the actual DPCR assessed by the tax authority is higher than 50%, the actual DPCR assessed shall be applied.

How to apply for **NPR** and **DPCR**



Application in advance

Application together with the declaration



Fill out the application form and submit related documents



The application form can be downloaded from the website, eTax Portal of MOF, as follows:
<https://www.etax.nat.gov.tw/etwmain/front/ETW118W/VIEW/1066>.

Makes application by itself

National Taxation Bureau of Taipei,
Ministry of Finance

Engage a tax agent to make application

the competent tax authority where the tax agent is located

Commission withholder to make application

the competent tax authority where the withholder is located

Methods of levying income tax



For income within the withholding tax scope under Article 88 of the Income Tax Act

The tax withholder (a profit-seeking enterprise, organization, institution, or entity within the R.O.C. which pays price or service fees) shall withhold the tax at the time of payment

**Withholding
Statement**



For income not within the withholding tax scope (e.g., buyers are individuals residing in the R.O.C. or foreign individuals or enterprises)

File the income tax return and make payment in accordance with the regulations concerned by itself or through a tax agent within the filing period for the taxable year.



For income within the withholding tax scope

How to file the withholding tax

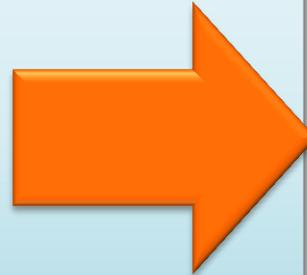
Deadline for the filing of withholding tax returns

The tax withholder within the R.O.C

Shall settle the taxes withheld for the national treasury within ten days from the date of withholding

The foreign POs withhold the transferred amounts

Shall settle all the taxes withheld in the previous month to the national treasury within the first ten days of each month



Filing of withholding tax returns



Withheld tax

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Fill out the Withholding Tax Statement and Submit it to the tax authority



For income not within the withholding tax scope
When must foreign profit-seeking enterprises
selling cross-border electronic services file income
tax returns and make tax payments?

May 1 to May 31
for the preceding
taxable year



Methods of paying income tax-1



For foreign profit-seeking enterprises selling cross-border electronic services charging fees in foreign currency, how can they convert into the New Taiwan Dollar ("NTD") amount?

Has been converted into NTD when filing business tax returns

It should use the same year total sales amounts in NTD in business tax returns as operating revenues in income tax returns

The operating revenues which are not subject to the scope of business tax

The annual average foreign exchange rate announced by the Bank of Taiwan for the closing prices at the spot buying rate on the last day of every month



Note 3: The costs, expenses, non-operating revenues, non-operating expenses, taxable income, and tax payable should use the same exchange rate as the operating revenues adopted to convert into NTD.

Methods of paying income tax-2

Cash payment

Foreign profit-seeking enterprises selling cross-border electronic services with a tax agent/ tax withholder

On the taxation registration platform of the Ministry of Finance



print out the tax bill with barcodes

The income tax can be paid at



Any commissioned bank in cash or by check



A tax bill under NT\$20,000 can be paid at a convenience store in cash

Pay tax via designated bank account

Foreign profit-seeking enterprises selling cross-border electronic services without a tax agent/ foreign POs withholding the transferred amounts

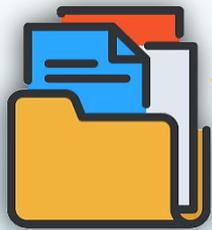
Information required to be filled in:

- Tax payable converted into NTD
- When filing an income tax return: Name, Tax ID number, Taxable year
- When filing a withholding tax return: Name, Tax ID number, Period of payment

Fill in the money order form (pay for remittance fees by themselves)

Beneficiary bank: Bank of Taiwan, Cheng Chung Branch
Beneficiary name: National Taxation Bureau of Taipei, Ministry of Finance
A/C No.-045036070263

Refunding overpaid tax



Effective
from 2017



within a
period of five
years starting
from the date
the income is
received



Withholding tax amount of a foreign profit-seeking enterprise selling cross-border electronic services is different from the income tax payable amount assessed by the competent tax authorities by applying NPR, DPCR, or transferring ratio causing overpayment of the income tax

Submit related
documents



Apply tax refund

- ✓ by itself
- ✓ by an agent

A fair taxation

A wonderful Taiwan

