

Taiwan Tax Update

June 2020

MOF issues tax ruling addressing tax treatment of profit-seeking enterprises (lessee) adopting IFRS 16 Leases beginning FY2019

According to tax ruling issued by the Ministry of Finance (“MOF”) on May 22, 2020, for profit-seeking enterprises who adopt IFRS 16 Leases beginning FY2019, when filing their corporate income tax (“CIT”) returns, the tax treatment of right-of-use asset and lease liability are consistent with their accounting treatment, except for the below items:

1. Estimated costs associated with dismantlement, removal, or restoration of right-of-use asset are not depreciable. Relevant costs are tax deductible when they are actually incurred with proper supporting documents.
2. The useful lives of right-of-assets shall not be shorter than the useful lives prescribed in the Fixed Assets Useful Life Table.
3. Impairment loss or valuation loss of right-of-use asset is deemed unrealized, and therefore is not tax deductible in the CIT return.

PwC Observation

Beginning FY2019, regardless of new lease or existing lease, the tax treatment of said lease shall be consistent with its accounting treatment, i.e. recognition of depreciation expense and interest expense associated with right-of-use asset, to minimize the need for profit-seeking enterprises to maintain comprehensive financial income to taxable income reconciliation. Additionally, when there is retroactive adjustment to retained earnings for profit-seeking enterprises adopting IFRS 16 on January 1, 2019 (expenses which should have been recognized in prior years are directly debited to retained earnings), as such expenses have never been realized for tax purpose in the CIT return, according to Article 111 of Regulations Governing Assessment of Profit-seeking Enterprise Income Tax, the retroactive adjustment to retained earnings shall be recognized as non-operating loss in FY2019 CIT return (limited to retroactive adjustment of retained earnings from adoption of

IFRS 16 for the company itself, i.e. impact on investee companies are not taken into consideration).

MOF issues tax ruling addressing VAT treatment of electronic magazine browsing services effective September 1, 2020

Salient points of the tax ruling announced by the MOF on June 2, 2020 addressing VAT treatment of electronic magazine browsing services are summarized below:

1. (i) Where a contract has been concluded between an enterprise and a registered magazine publisher, and electronic magazine browsing service is provided by the enterprise via its platform for a fee; or (ii) where the registered magazine publisher provides the aforementioned services via the internet for a fee (effective for subscription on or after September 1, 2020), the VAT treatment of the downloadable electronic magazine is summarized as follows:
 - (1) Where the buyer of the magazine browsing service can store the magazine permanently, the transaction is VAT exempt.
 - (2) Where the buyer of the electronic magazine browsing service cannot download and browse the magazine in the following scenarios, the transaction will be subject to VAT, which includes (i) if within the subscription period, the enterprise shall delete overdue electronic magazines according to contract terms, or (ii) if after expiration of the subscription period, the enterprise shall delete electronic magazines downloaded by the buyer during the subscription period.
2. Electronic magazine refers to a named magazine published electronically (including via the internet) on a periodic basis over a fixed period of more than 7 days and less than 3 months, where the cover of the magazine and its contents are identical to the hard copy version, and are solely provided to readers for browsing.

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