

Content

Title : Directions for Foreign Profit-seeking Enterprises Applying for Issuance of Assessment Permission of Applicable Net Profit Ratio and Domestic Profit Contribution Ratio for Calculation of Income from Sources in the Republic of China **Ch**

Date : 2019.09.26

Legislative : 1. Promulgated by Decree No. Tai-Tsai-Shui-10804544261 issued by Ministry of Finance on September 26, 2019

Content : 1. Foreign profit-seeking enterprises without a fixed place of business or business agent within the territory (hereinafter referred to as "foreign companies") of the Republic of China (hereinafter referred to as "R.O.C.") deriving the remuneration for services stipulated in Subparagraph 3 or the business profit stipulated in Subparagraph 9 of Article 8 of Income Tax Act, according to Article 15-1 of Guidance for Determining Income from Sources in the Republic of China (hereinafter referred to as "TSI Guidance"), can provide relevant documents to the tax authority to apply for the adoption of net profit ratio and the contribution of the domestic transaction process to the total profit of all trading processes (hereinafter referred to as "domestic profit contribution ratio") before receiving payments in order to calculate their R.O.C. taxable income.

2. Applicants and competent tax authority

2.1 Foreign companies can apply to the competent taxation authority themselves or by appointing domestic individuals or profit-seeking enterprises with fixed places of business within the R.O.C. as agents on their behalf.

2.2 Where foreign companies receive income within the scope of withholding, as stipulated in Article 88 of Income Tax Act, the competent tax authority for reviewing these applications is the national tax bureau where the tax withholder is located; if the income is not within the scope of withholding stipulated in Article 88 of the Income Tax Act, the competent tax authority is the national tax bureau where the central government is located.

3. The assessment of net profit ratio

For foreign companies deriving R.O.C.-sourced revenue as stipulated in

paragraph 1, the net profit ratio would be assessed as follows:

- 3.1 According to Article 8 of the Income Tax Act and the Guidelines for the Determination of Income Sources from the R.O.C., in considering those electronic services with economic connections to the R.O.C., the source of revenue of foreign enterprises providing cross-border electronic services shall be determined as follows:
 - 3.2 Those who cannot meet the requirements stated in the previous paragraph, but are able to provide the same kind of contract with the same domestic profit-seeking enterprise where the applicant has previously obtained approval for deemed profit ratio from the tax authority based on the deduction of costs and expenses calculated from their accounting books, receipts, or other relevant documents within the three most recent years, the ratio is assessed according to the average of the previously assessed net profit ratio in the three most recent years.
 - 3.3 Those who cannot meet the requirements stated in the previous two paragraphs, but are able to provide the contract, main operating items, a description of domestic and foreign transaction processes, and sufficient documents to the tax authority to assess the main business items, the ratio is assessed according to the net profit ratio of the profit standard of the same trade concerned that the main operating items fall under.
 - 3.4 If the actual net profit ratio assessed by the tax authority is higher than the net profit ratio assessed in accordance with the previous two paragraphs, the higher net profit ratio would be adopted.

4. The assessment of domestic profit contribution ratio

For foreign companies deriving R.O.C.-sourced income stipulated in paragraph 1, and the relevant activities of the services or business operations are carried out within the R.O.C. domestically and offshore simultaneously, the domestic profit contribution ratio will be assessed in the following manner:

- 4.1 For those who can provide documents that clearly define the domestic and offshore profit contributions (e.g., a Certified Public Accountant report; transfer pricing report; work plans, records, or report, etc.), the domestic profit contribution ratio will be assessed on such basis.
- 4.2 For those who cannot meet the requirements stated in the previous paragraph, but are able to provide the same kind of contract with the same domestic profit-seeking enterprise, where the applicant has previously obtained approval for domestic profit contribution ratio from the tax authority based on documents that clearly define the domestic and offshore profit contributions within the three most recent years, the ratio is assessed according to the average of the previous assessed domestic profit contribution ratio in the three most recent years. If the actual domestic profit contribution as assessed by the tax authority is higher, it shall be verified based on the obtained information.
- 4.3 For those who cannot meet the requirements stated in the previous two paragraphs, the ratio would be assessed as 100%.

5. Documents to be submitted

- 5.1 The relevant signed underlying contracts (including Chinese translation).

- 5.2 Explanation of main business operation and onshore and relevant offshore transaction flow/stages.
- 5.3 Documents illustrating applicant's main business operation.
- 5.4 Previous approval letter (within the three most recent years) issued by the tax authority on the use of deemed profit and contribution ratio (if previously granted).
- 5.5 Letter of authority (if applicant is appointing an agent to file the application).
- 5.6 Other relevant documents.

6. Rules on the reporting/payment of income tax

Where foreign companies derive the R.O.C.-sourced income stipulated in paragraph 1 to calculate their taxable income based on the assessed net profit ratio and domestic profit contribution in accordance with paragraph 3 and 4, according to the first paragraph of Article 73 of the Income Tax Act and Article 60 of the Enforcement Rules of the Income Tax Act, the tax reporting is as follows:

- 6.1 For income within the withholding tax scope under Article 88 of the Income Tax Act, the tax withholders shall withhold tax according to calculated income and stipulated withholding ratio upon the payment.
- 6.2 For income not within the withholding tax scope under Article 88 of the Income Tax Act, 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 within the period for the taxable year.

Data Source : Ministry of Finance, R.O.C. Laws and Regulations Retrieving System