

## Content

Title :	Regulations Governing Application of Income Tax Deferral in Accordance with the Statute for Industrial Innovation <b>Ch</b>
Date :	2020.03.05
Legislative :	Promulgated by Decree No. 10904528480 by the Ministry of Finance on March 5, 2020
Content :	<p><b>Article 1</b></p> <p>These Regulations are enacted pursuant to Paragraph 10 of Article 12-1, Paragraph 6 of Article 12-2, and Paragraph 9 of Article 19-1 of the Statute for Industrial Innovation (hereinafter referred to as “the Statute”).</p> <p><b>Article 2</b></p> <p>Where a domestic individual, company, or limited partnership elects to apply income tax deferral on all the shares acquired with the transferred or licensed intellectual property rights from the R&amp;D results in accordance with Paragraph 2, Article 12-1 of the Statute and the company issuing the shares applies for and receives confirmation of the applicability of income tax deferral from the central competent authority in charge of the relevant industry in accordance with the relevant regulations in the year the shares are delivered, from the year the shares are issued to the year such income of the recipient is subject to tax, the company issuing the shares shall fill out the profit-seeking enterprise income tax return and the tax reduction and exemption statement in the prescribed format when filing its annual profit-seeking enterprise income tax return. When filing the profit-seeking enterprise income tax return for the year in which the shares are issued, the company shall also submit the following documents:</p> <ol style="list-style-type: none"><li>1. A photocopy of the confirmation document issued by the central competent authority in charge of the relevant industry confirming the intellectual property rights from the R&amp;D results.</li><li>2. Documents related to capital increase, such as minutes of board of directors meetings, minutes of shareholders’ meetings, and supporting documents before and after the company registration or any amendment thereto.</li><li>3. A photocopy of the intellectual property rights assignment or license agreement for the share subscription at issue, which shall specify the total amount of consideration for such assignment or license of intellectual property rights, the type of shares acquired, the issue price per share, and the number of shares acquired.</li><li>4. A statement of election to apply income tax deferral by the domestic individual, company, or limited partnership assigning or licensing the intellectual property rights.</li></ol> <p>The year such income is subject to tax, as referred to in the preceding paragraph, shall be the year in which the shares are actually transferred or the year in which the shares are book-entry transferred to the custody account of the securities firm or custodian institution.</p> <p>If a domestic individual has held such shares and provided services regarding application of the intellectual property rights to the company issuing the shares for at least two years in accordance with Paragraph 3, Article 12-1 of the Statute, the</p>

company issuing the shares shall, when filing the annual profit-seeking enterprise income tax return for the year in which the requirements are met, submit, together with the return, a photocopy of the letter of recordation from the central competent authority in charge of the relevant industry confirming that the requirements have been met.

### Article 3

Where, in accordance with Paragraph 1, Article 12-2 of the Statute, a domestic academic or research institution assigns or licenses the intellectual property rights resulting from its own R&D results and vested therein in accordance with Paragraph 1, Article 6 of the Fundamental Science and Technology Act to a company to use such rights, acquires shares in the company as consideration, and distributes the shares to the domestic creator of the intellectual property rights in accordance with the regulations established under Paragraph 3, Article 6 of the Fundamental Science and Technology Act, such domestic creator may elect to apply income tax deferral on all the shares he/she acquires. If the competent authority in charge of enforcing such regulations has certificated the applicability of the income tax deferral, from the year the shares are distributed to the creator to the year the creator's income is subject to tax, the company issuing the shares shall fill out the profit-seeking enterprise income tax return and tax reduction and exemption statement in the prescribed format when filing its annual profit-seeking enterprise income tax return. When filing the profit-seeking enterprise income tax return for the year in which the shares are distributed by the institution to the creator, the company shall also submit the following documents:

1. A photocopy of the certification document issued by the relevant competent authority in charge of enforcing the regulations established under Paragraph 3, Article 6 of the Fundamental Science and Technology Act confirming the intellectual property rights from the R&D results of the domestic academic or research institution.
2. Documents related to capital increase, such as minutes of board of directors meetings, minutes of shareholders' meetings, and supporting documents before and after the company registration or any amendment thereto.
3. A photocopy of the intellectual property rights assignment or license agreement for the share subscription at issue, which shall specify the total amount of consideration for such assignment or license of intellectual property rights, the type of shares acquired, the issue price per share, and the number of shares acquired.
4. A photocopy of the distribution agreement between the domestic academic or research institution and the domestic creator.
5. A statement of election to apply income tax deferral by the domestic creator of the intellectual property rights.

The year such income is subject to tax, as referred to in the preceding paragraph shall be the year in which the creator's shares are actually transferred or the year in which the shares are book-entry transferred to the creator's custody account of the securities firm or custodian institution.

If the domestic creator has held such shares and provided services to domestic industrial, academic, or research institution engaging in R&D work for at least two years in accordance with Paragraph 2, Article 12-2 of the Statute, the company issuing the shares shall, when filing the profit-seeking enterprise income tax return for the year in which the requirements are met, submit, together with the return, a photocopy of the letter of recordation from the relevant competent authority in charge of enforcing the regulations established under Paragraph 3, Article 6 of the Fundamental Science and

Technology Act confirming that the requirements have been met.

#### Article 4

The domestic individual, company, or limited partnership that elects to apply the income tax deferral in accordance with Article 2 shall, when the shares are actually transferred or book-entry transferred to their custody account of the securities firm or custodian institution, treat the transfer price of the shares, the market value at the time of a gift or distribution as an inheritance, or the market value on the date of the book-entry transfer as the gross income for the year of the transfer or book-entry transfer and the balance after deducting any unrecognized costs or expenses related to the acquisition of the shares is the income which shall be included for the assessment of income tax for the year of the transfer or book-entry transfer.

Where a domestic individual who meets the requirements under Paragraph 3, Article 12-1 of the Statute calculates and reports their income tax in accordance with the preceding paragraph, if the transfer price of the shares, the market value at the time of a gift or distribution as an inheritance, or the market value on the date of the book-entry transfer is higher than the price at which the shares were acquired, the price at which the shares were acquired shall be treated as the gross income for the year of the transfer or book-entry transfer.

The domestic creator who elects to apply the income tax deferral in accordance with the preceding article shall, when the shares are actually transferred or book-entry transferred to the custody account of the securities firm or custodian institution, take the transfer price of the shares, the market value at the time of a gift or distribution as an inheritance, or the market value on the date of the book-entry transfer as salary income for the year of the transfer or book-entry transfer to compute and report the income tax payable in accordance with the Income Tax Act.

Where a domestic creator who meets the requirements under Paragraph 2, Article 12-2 of the Statute calculates and reports their income tax in accordance with the preceding paragraph, if the transfer price of the shares, the market value at the time of a gift or distribution as an inheritance, or the market value on the date of the book-entry transfer is higher than the market price at the time the shares were acquired, the market price at the time the shares were acquired shall be treated as salary income for the year of the transfer or book-entry transfer to compute and report the income tax payable in accordance with the Income Tax Act.

The term “transfer,” as used in the preceding four paragraphs, refers to a change in share ownership resulting from a sale, gift, distribution upon inheritance (upon the commencement of succession), cancellation of shares for capital reduction, company liquidation, or other causes.

Where a domestic individual to whom Paragraph 2 or 3, Article 12-1 of the Statute applies calculates the income in accordance with Paragraph 1 or 2 hereof and is unable to provide supporting documents for costs or expenses, the costs and expenses shall be calculated and deducted at 30% of the gross income, the transfer price, the market value of the shares at the time of a gift or distribution as an inheritance, or the market value on the date of book-entry transfer.

Once the shares referred to in Paragraph 1 and 3 have been book-entry transferred to their custody account with the securities firm or custodian institution, no application may be filed to reinstate income tax deferral or change the timing of taxation.

The company issuing the shares shall specify the tax provisions referred to in the

preceding seven paragraphs in both the statement signed by the domestic individual, company, limited partnership or domestic creator electing to apply income tax deferral and the share certificates.

#### Article 5

Where a company employee acquires shares and elects to apply income tax deferral on all the shares within the specified limit in accordance with Paragraph 1, Article 19-1 of the Statute, the company issuing the shares shall, from the year the employee acquires the shares or the shares become disposable to the year such income is subject to tax, fill out the profit-seeking enterprise income tax return and tax reduction and exemption statement in the prescribed format when filing its annual profit-seeking enterprise income tax return. When filing the profit-seeking enterprise income tax return for the year in which the shares are acquired by the employee or the shares become disposable, the company shall also submit the following documents:

1. A photocopy of the confirmation document issued by the relevant central competent authority in charge of the relevant industry confirming the share-based employee compensation.
2. Documents related to capital increase, such as minutes of board of directors meetings, minutes of shareholders' meetings, and supporting documents before and after the company registration or any amendment thereto (not applicable where no capital increase is involved).
3. Documents relating to the share-based employee compensation, which shall include the type of shares acquired, the issue price per share, and the number of shares acquired.
4. The statement of election to apply income tax deferral by the company employee.

If the company employee referred to in the preceding paragraph has held such shares and continued to work in the company for at least two years in accordance with Paragraphs 2 and 3, Article 19-1 of the Statute, the company issuing the shares shall, when filing the annual profit-seeking enterprise income tax return for the year in which the requirements are met, submit, together with the return, a photocopy of the letter of recordation from the central competent authority in charge of the relevant industry confirming the employee's holding of shares and their provision of services reaching at least two years.

#### Article 6

The amount that a company employee may elect to apply income tax deferral in accordance with Paragraph 1 of the preceding article shall be limited to a total of NT\$5 million for the entire year based on the market price of the shares in the year such shares were acquired or the year the shares become disposable.

The company employee referred to in the preceding paragraph shall, when the shares are actually transferred or book-entry transferred to the custody account of the securities firm or custodian institution, treat the actual transfer price of the shares, the market value at the time of a gift or distribution as an inheritance, or the market value on the date of the book-entry transfer as the gross income for the year of the transfer or book-entry transfer, and shall compute and report such income in accordance with the Income Tax Act.

The company employee referred to in the preceding paragraph shall, when the shares are actually transferred or book-entry transferred to the custody account of the

securities firm or custodian institution, treat the actual transfer price of the shares, the market value at the time of a gift or distribution as an inheritance, or the market value on the date of the book-entry transfer as the gross income for the year of the transfer or book-entry transfer, and shall compute and report such income in accordance with the Income Tax Act.

The term “transfer” as used in the preceding two paragraphs refers to a change in share ownership resulting from a sale, gift, distribution upon inheritance (upon the commencement of succession), cancellation of shares for capital reduction, company liquidation, or other causes.

Once the shares referred to in Paragraph 2 have been book-entry transferred to their custody account with the securities firm or custodian institution, no application may be filed to reinstate income tax deferral of the income tax or change the timing of taxation.

The company issuing the shares shall specify the tax provisions referred to in the preceding five paragraphs in both the statement signed by the company employee electing to apply income tax deferral and the share certificates.

#### Article 7

“The year in which the shares are acquired” and “the year in which the shares become disposable,” as referred to in accordance with Paragraph 1, Article 19-1 of the Statute, shall be determined based on the year of the date on which the shares were acquired or disposable, as follows:

##### 1. The date of the shares acquired:

(1) Where the shares are issued as employee compensation, employee stock options in cash capital increases, shares purchased-back and issued to employees, and new restricted shares issued to employees, the date shall be when the issuing company delivers the shares. Where the shares are delivered via book-entry transfer, the date shall be when the shares are delivered via book-entry transfer by the company or its stock agency. Where the shares are not delivered via book-entry transfer, the date shall be the first day on which the shares can be collected pursuant to the rules of the company or its stock agency. However, where a certificate of entitlement to new shares or a certificate of payment is delivered prior to the delivery of the shares, the date on which the book-entry transfer is made or the date on which such certificates are delivered shall apply.

(2) Where share subscription warrants are issued to employees, the date shall be when the employee exercises their rights, determined based on the date on which the issuing company or its stock agency delivers the shares pursuant to the relevant regulations. However, where a certificate of payment is delivered first, the date on which such certificate is delivered shall apply.

##### 2. The date of the shares become disposable, where the share-based employee compensation referred to in the preceding subparagraph is subject to a restricted transfer period:

(1) Where the restricted employee shares are specified in Paragraph 9, Article 267 of the Company Act, the date shall be the date on which the vesting conditions are met. Where the shares are held in a centralized depository, the date shall be the date on which the Taiwan Depository and Clearing Corporation removes the restriction markings on the restricted employee shares; where the shares are held in a trust, the date shall be the date on which the trustee transfers the shares to the employee's account.

(2) Where the shares are other than those referred to in the preceding item, the date shall be the day following the expiration of the restricted transfer period.

#### Article 8

To determine whether the NT\$5 million cap specified under Paragraph 1, Article 19-1 of the Statute has been reached, the amount shall be calculated based on the market price on the date of the shares acquired, as specified under Subparagraph 1 of the preceding article, and the date of the shares become disposable, as specified under Subparagraph 2 of the preceding article. The market price shall be determined as follows:

1. Where the shares acquired are exchange-listed or OTC-listed, the market price shall be the closing price of the shares on the day of the shares acquired or disposable; where there is no trading price on that day, the market price shall be the closing price on the first day with a trading price thereafter.
2. Where the shares acquired are initial public offering stocks for the listing on the Taiwan Stock Exchange Corporation or Taipei Exchange(TPEX) for which there are no price fluctuation limits imposed for the five trading days beginning from the listing day in accordance with Paragraph 2, Article 63 of the Operating Rules of the Taiwan Stock Exchange Corporation or Paragraph 4, Article 55 of the Taipei Exchange Rules Governing Securities Trading on the TPEX, the market price shall be the weighted average trading price of the shares on the day of the shares acquired or disposable.
3. Where the shares acquired are listed on the Emerging Stock Board, the market price shall be the weighted average trading price of the shares on the day of the shares acquired or disposable; where there is no trading price on that day, the market price shall be the weighted average trading price on the first day with a trading price thereafter.
4. Where the shares acquired are not exchange-listed, OTC-listed, or not listed on the Emerging Stock Board, the market price shall be the net value per share stated in the latest financial report audited and attested by a Certified Public Accountant(CPA) within one year prior to the day of the shares acquired or disposable; where there is no financial report audited and attested by a CPA within one year prior to such day, the market price shall be the net value per share calculated based on the company's net asset value on that day.

#### Article 9

For the domestic individual, company, or limited partnership subjects to Article 2, the domestic creator subjects to Article 3, and the company employee subjects to Article 5, the tax withholder shall be exempt from withholding tax in accordance with Article 88 of the Income Tax Act when delivering the shares.

Where the company issuing the shares applies to the central competent authority in charge of the relevant industry for the certification in accordance with Paragraph 6, Article 12-1 of the Statute, and the domestic academic or research institution applies to the competent authority in charge of enforcing the regulations established under Paragraph 3, Article 6 of the Fundamental Science and Technology Act for the certification in accordance with Paragraph 4, Article 12-2 of the Statute, if the application is rejected by the competent authority, the tax withholder shall, within one month from the date the rejection letter from the competent authority is served on the applicant, make the supplementary withholding and payment of the tax withheld and submit the Withholding and Non-Withholding Tax Statement to the tax authority.

submission within the time limit specified in the preceding paragraph, it may be

exempt from the accrual of interest and the penalties prescribed under Articles 111 and 114 of the Income Tax Act; if it fails to do so within the time limit, it shall be subject to the penalties prescribed under the aforementioned provisions of the Income Tax Act.

#### Article 10

The company issuing the shares shall, in accordance with Article 67-1 of the Statute, by January 31 of the year following the transfer or book-entry transfer of the shares, submit to the competent tax authority a statement of the shares that were transferred or book-entry transferred in the preceding year in the prescribed format, and issue the statement to the taxpayer by February 10. Where three national holidays occur in succession in January, the period for the submission of the statements shall be extended to February 5, and the period of the issuance of such statements shall be extended to February 15.

Where an individual, company, or limited partnership sells shares that are subject to Article 12-1, 12-2, and 19-1 of the Statute through a centralized securities exchange market or an over-the-counter market, the securities firm shall notify the issuing company of the date of the share transfer, the quantity of shares transferred, and the transaction price on the business day following the transaction.

#### Article 11

These Regulations shall be effective from January 1, 2020 to December 31, 2029.

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