Technical Update in Taiwan

August 2026

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1. Payroll

OLD PENSION SYSTEM TO TRANSITION TO THE NEW LABOR PENSION SYSTEM

The Executive Yuan has recently approved a plan to allow workers covered exclusively by the old pension system to transition to the new Labor Pension system. The Ministry of Labor has also announced the implementing regulations, which will take effect on **July 17, 2026**. The new measures include allowing workers under the old system to make voluntary pension contributions and enabling employers and employees to mutually agree to settle accrued old-system retirement benefits early. It is estimated that approximately **115,000 workers** will be eligible.

To better protect the retirement benefits of workers who were covered by the **Labor Standards Act** before the **Labor Pension Act** came into force, and who continued working for the same employer after the Labor Pension Act took effect while choosing to remain under the old retirement system (hereinafter referred to as "workers covered exclusively by the old pension system"), the Ministry of Labor has introduced these new measures.

In accordance with the **"Voluntary Contributions and Early Settlement of Retirement Benefits for Workers Covered Exclusively by the Old Pension System"** plan approved by the Executive Yuan, the Ministry of Labor amended the Enforcement Rules of the Labor Pension Act on **July 15, 2026**. These amendments provide eligible workers with greater flexibility in retirement planning and additional financial security for the future.

Voluntary Contributions and Early Settlement of Retirement Benefits for Workers Covered Exclusively by the Old Pension System

Workers covered exclusively by the old pension system may now make **voluntary pension contributions**. In addition, those who meet the statutory retirement eligibility requirements and choose to make voluntary contributions may, through mutual agreement with their employer, settle their accrued retirement benefits under the old system in advance and deposit them into their individual Labor Pension accounts, allowing them to benefit from the stable investment returns of the new Labor Pension Fund.

Step 1:

While still employed, a worker covered exclusively by the old pension system may notify their employer of their intention to make **voluntary pension contributions**. The employer will then apply to the Bureau of Labor Insurance to establish an individual Labor Pension account for the worker, enabling them to participate in the investment returns distributed by the new Labor Pension Fund.

Step 2:

Workers who satisfy the statutory retirement eligibility requirements and have opted to make voluntary pension contributions may, while their employment contract remains in effect, negotiate with their employer to settle their retirement benefits under the old system in advance. The settled amount must be transferred into the worker's individual Labor Pension account under the new system, allowing the retirement savings to benefit from long-term compound investment growth.

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2. Audit

LATEST MINISTRY OF FINANCE INTERPRETATION: INVESTMENT INCOME EXCLUDED FROM TAXABLE INCOME EARNED BY SECURITIES TRADING ENTERPRISES MAY BE INCLUDED IN THE CALCULATION BASE FOR ENTERTAINMENT EXPENSES, DONATIONS, AND EMPLOYEE WELFARE EXPENSE DEDUCTION LIMITS

I. Introduction

The Ministry of Finance (MOF) has recently issued a tax ruling clarifying that investment income earned by profit-seeking enterprises whose principal business is the trading of marketable securities, and which is excluded from taxable income under the Income Tax Act, may nonetheless be included in the calculation base for determining the deductible limits of entertainment expenses, donations, and employee welfare expenses.

At first glance, this may appear to be a technical adjustment to corporate income tax filing procedures. However, from the perspectives of business operations, tax equity, and tax audit risk management, the ruling carries significant implications.

II. Key Significance of the Ruling

The core issue underlying previous tax controversies was straightforward: Although the income clearly exists, should it be included in the calculation base for deductible expense limits?

For many enterprises engaged primarily in securities investment and trading, a recurring practical challenge has arisen when calculating the deductible limits for entertainment expenses, donations, and employee welfare expenses. While such enterprises may generate substantial investment income, certain categories of that income are excluded from taxable income under the Income Tax Act. Consequently, a key question has been whether such income should nevertheless be taken into account when determining deductible expense ceilings.

Under a narrow interpretation, because the income is not taxable, it should logically be excluded from the calculation base. However, from the standpoint of an enterprise's actual scale of operations, investment income remains an important outcome generated through business activities. Excluding it entirely may understate the enterprise's true operating scale.

The MOF's latest ruling clearly adopts the latter perspective.

In other words, the tax authority recognizes that: "Income excluded from taxable income" and "income excluded from the calculation base for deductible expense limits" are fundamentally different concepts.

The former concerns whether income is subject to taxation, while the latter concerns the measurement of an enterprise's operational scale and its capacity to incur reasonable business expenses.

From a tax policy perspective, this represents an adjustment that aligns with the principle of substance over form and reflects the government's increasing emphasis on economic substance rather than merely formal tax classifications.

For securities dealers, investment companies, and other financial investment-related enterprises, investment income is often a core component of business performance. If an enterprise generates hundreds of millions of dollars in investment income annually but is prohibited from including that income in the calculation base solely because of tax law provisions, the result may be:

- Artificially low entertainment expense limits;
- Reduced employee welfare expense allowances; and
- Lower deductible thresholds for charitable donations.

Such outcomes may not accurately reflect the enterprise's actual business scale and economic activity.

Accordingly, the ruling also demonstrates the continuing evolution of Taiwan's tax framework toward greater substantive fairness.

III. Implications for Businesses

More importantly, businesses should focus on the calculation methodology rather than the immediate tax-saving effect. Market discussions surrounding the ruling have largely centered on questions such as: "How much additional expense can now be deducted?"

However, the true significance of the ruling may lie less in the potential tax benefit and more in the clarification of tax treatment standards.

In practice, many tax adjustment cases do not arise because taxpayers intentionally misreport. Rather, they stem from differing interpretations of ambiguous regulations by taxpayers and tax authorities.

By establishing a clear and consistent standard through this ruling, the MOF enables enterprises to:

- Develop more robust internal tax reporting policies;
- Reduce disputes during tax examinations;
- Improve overall tax compliance quality; and
- Strengthen consistency between financial reporting and tax reporting.

From a long-term governance perspective, these benefits are often more valuable than any short-term tax savings.

IV. Key Considerations for Auditors and Finance Professionals

Certified Public Accountants, tax advisors, and finance executives should pay particular attention to the following areas:

1. Determine Whether Investment Income Falls Within the Scope of the Ruling

Not all categories of investment income receive identical tax treatment. Enterprises should verify whether the relevant income qualifies as income excluded from taxable income under the Income Tax Act and is therefore eligible under the ruling.

2. Assess Whether Deduction-Limit Calculation Models Require Revision

Existing corporate income tax workpapers, calculation methodologies, and ERP system configurations may need to be updated to reflect the new guidance.

3. Evaluate the Impact on Current-Year Income Tax Expense

The impact may be particularly significant for enterprises whose revenues are heavily dependent on investment income.

4. Maintain Comprehensive Supporting Documentation

Supporting records should include:

- Detailed schedules of investment income;
- Calculation methodologies;
- Management reports; and
- Relevant supporting evidence

to facilitate future tax examinations and regulatory reviews.

V. Conclusion

Perhaps the most noteworthy aspect of this ruling is not the possibility that businesses may be entitled to higher deductible expense limits. Rather, it sends a broader message:

Taiwan's tax administration is gradually shifting from a form-based approach toward an economic substance-based approach.

Going forward, whether dealing with investment income, cross-border transactions, or intra-group resource allocation arrangements, enterprises should avoid relying solely on the literal wording of tax provisions. Instead, tax analysis should increasingly focus on the underlying economic substance and operational reality of transactions.

For finance executives, this ruling represents more than a routine regulatory update. It is an opportunity to reassess and strengthen the organization's overall tax risk management framework.

As tax regulations become increasingly sophisticated and audit techniques continue to evolve, the critical question for businesses is no longer: "How can we pay less tax?" but rather: "How can we establish a sustainable, transparent, and compliant tax governance framework while managing tax obligations effectively?"

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3. Corporate Secretarial Services

COMPANY REGISTERED CAPITAL: BASIC CONCEPTS AND NO MINIMUM CAPITAL REQUIREMENT

1. Basic Concept of Capital

Registered capital refers to the total amount of capital subscribed by the shareholders and represents the funds that shareholders commit to investing in the company. It serves as an important source of funding during the initial stages of the company's operations.

When establishing a company in Taiwan, shareholders are required to contribute capital in accordance with the company's Articles of Incorporation and applicable regulations. The paid-in capital must generally be verified by a certified public accountant (CPA) before the company can complete its incorporation registration with the competent authority.

Registered capital is not required to remain deposited in the company's bank account indefinitely. Once the company has been duly incorporated, the funds may be used for legitimate business purposes, including rent, payroll, equipment purchases, inventory procurement, and other operating expenses.

2. Current Regulations on Company Capital Requirements

To lower barriers to entry, encourage entrepreneurship, and simplify the company formation process, Taiwan's Legislative Yuan passed amendments to the Company Act on April 14, 2009, abolishing the minimum capital requirements previously applicable to limited companies and companies limited by shares.

Under the current Company Act, there is no general statutory minimum capital requirement for company incorporation. Companies may determine an appropriate level of capital based on their operational needs and anticipated expenditures.

However, registered capital should not be determined arbitrarily. From a practical business and financial planning perspective, a company should maintain sufficient capital to support its intended business activities and operational requirements. If the registered capital is set too low, the company may face difficulties covering initial expenses such as office rent, personnel costs, equipment purchases, and other essential operating expenditures. In addition, insufficient capital may negatively affect how customers, suppliers, financial institutions, and potential investors assess the company's financial strength and credibility.

In practice, the amount of registered capital is typically determined based on the nature of the business, operating model, and funding requirements. Examples include:

- **Small consulting firms or start-ups:** commonly range from NTD 100,000 to NTD 1 million.

- **Trading companies, retail businesses, or companies requiring equipment investment:** commonly range from NTD 1 million to NTD 5 million.

The above figures are for reference only and do not represent legal requirements. The appropriate amount of registered capital should always be determined based on the company's actual business needs.

It should also be noted that while general companies are no longer subject to minimum capital requirements, certain regulated industries, such as banking, insurance, securities, and other businesses requiring special governmental approval, may still be subject to industry-specific minimum paid-in capital requirements. Companies intending to operate in such industries should confirm the relevant regulatory requirements before incorporation.

3. Key Considerations When Determining Registered Capital

When establishing a company, founders should avoid setting the registered capital too low merely to reduce start-up costs. Conversely, it is generally not advisable to set an excessively high capital amount when there is no genuine funding requirement.

Insufficient capital may affect the company's ability to support its initial operations, obtain bank financing, and establish commercial credibility. Excessive capitalization, on the other hand, may result in inefficient use of funds and, in certain circumstances, may prompt regulatory authorities or financial institutions to request additional information regarding the source and intended use of the invested capital.

In addition, as a company's registered capital and scale of operations grow, it may become subject to financial statement audit requirements due to statutory obligations, bank financing arrangements, investor expectations, or group reporting policies. The related professional service costs should therefore be considered as part of the company's overall business planning.

If additional funding is required in the future, the company may increase its capital through a capital injection based on its actual operational and financing needs. There is generally no need to contribute an excessive amount of capital at the incorporation stage.

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4. Tax

NEW WITHHOLDING RULES FOR INTEREST INCOME ON P2P LENDING PLATFORMS

Key Takeaways

On August 6, 2026, the Ministry of Finance (MOF) issued Interpretive Ruling No. 11504580740, clearly setting out the withholding obligations of online peer-to-peer lending platforms ("P2P platforms") with respect to interest income, in response to the tax practice issues that have arisen from the rapid development of fintech and online lending businesses in recent years.

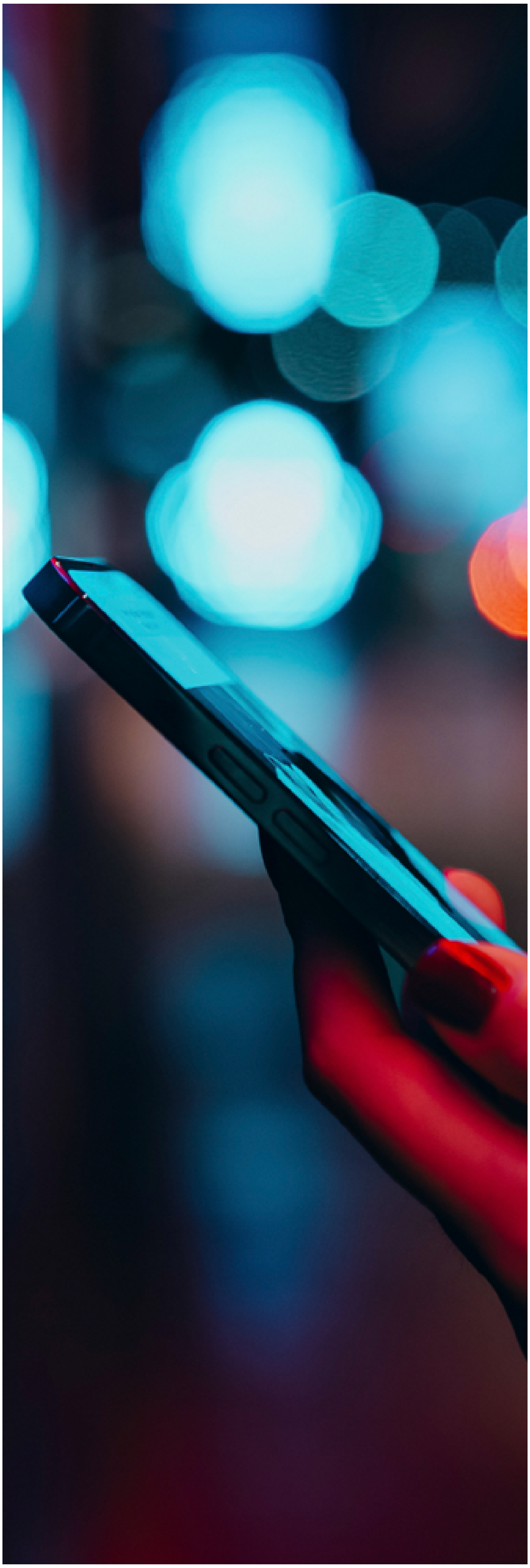
Analysis

P2P lending platforms provide an alternative financing channel by directly matching borrowers with lenders, eliminating the need for traditional banks to act as intermediaries and generally involving fewer procedures such as extensive background and credit checks. This model can provide borrowers with easier access to funding while offering lenders the opportunity to earn higher interest returns than those typically available from conventional bank deposits.

Under the MOF ruling, a P2P platform that provides online loan-matching services and manages the flow of funds between borrowers and lenders may be regarded as the actual payer of interest income where it controls the transfer of funds between the parties and either instructs a bank or electronic payment institution to manage interest payments or collects and disburses such payments on behalf of the parties. As the platform exercises substantive control and management over the lending funds and interest payments, it is considered the actual payer of the interest and therefore qualifies as a withholding agent under the Income Tax Act.

Accordingly, when a P2P platform pays interest to a lender, it is required to withhold and report the applicable tax and issue the withholding (or exemption) certificate in accordance with the regulations. Where the P2P platform operator has fulfilled these withholding obligations, the borrower, despite being the party bearing the interest expense, is no longer required to separately withhold tax on the same interest payment. This arrangement helps simplify tax compliance procedures for both borrowers and lenders.

This interpretive ruling takes effect from its date of issuance (August 6, 2026). For interest income arising before the issuance date, lenders are still required to include the interest received in their total consolidated income for the relevant year when filing individual income tax; P2P platform operators are not required to retroactively file or issue withholding (or exemption) certificates for that period.



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