



Technical Update in Taiwan

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1. Tax

AUTHENTICATION BY OVERSEAS DIPLOMATIC MISSIONS NO LONGER REQUIRED FOR CPA-CERTIFIED DOCUMENTS SUPPORTING OFFSHORE COSTS AND EXPENSES CLAIMED BY FOREIGN COMPANIES

Summary

On September 16, 2026, the Ministry of Finance (“MOF”) issued Ruling No. 11500617350, stating that when a foreign company’s branch or fixed place of business in Taiwan files its income tax return and declares offshore costs and expenses, it may present the head office’s financial reports certified by a qualified local CPA, or supporting documents issued by the local tax authorities, containing details such as the amount, nature, calculation analysis, or allocation methods of such offshore costs and expenses. These documents may be used to substantiate the reported costs and expenses without authentication by overseas diplomatic missions.

Analysis

In 1997 and 1999, MOF issued tax rulings stipulating that when a foreign company’s branch or fixed place of business in Taiwan files its annual corporate income tax return and reports offshore costs and expenses, it

may substantiate such expenses using the foreign head office’s financial reports certified by a qualified CPA in the jurisdiction where the head office is located and containing relevant details of the offshore expenses, or supporting documents issued by local tax authorities. However, such documents were required to be authenticated by overseas diplomatic missions before being recognized. Considering that the authentication process for foreign companies is cumbersome and only verifies the formal authenticity of foreign documents without reviewing their substantive content, the MOF issued a new tax ruling to amend the two aforementioned rulings out of consideration for public convenience. The requirement for authentication by overseas diplomatic missions has been removed to reduce tax compliance costs for foreign companies and foster a more favorable tax environment for international investment.

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2. Audit & Assurance

WHEN THERE IS NO VISIBLE PRICE, HOW DO AUDITORS ASSESS WHAT A COMPANY IS WORTH?

Investors in listed shares can usually observe a market price. Start-ups, private companies, private equity funds, venture capital funds and special purpose vehicles, however, often do not have daily quoted prices.

Their carrying amounts in financial statements may therefore need to be measured at fair value.

In plain language, fair value is the price that would be received to sell an asset, or paid to transfer a liability, in an orderly transaction between market participants at the measurement date. It is not the number management hopes to report. It is an exit price estimated from the perspective of market participants.

Why does this matter?

For a material investment, valuation movements may directly affect profit or loss, net assets, performance measures and investor decisions. The more a valuation relies on unobservable information, the greater the judgment and measurement uncertainty will generally be.

A Few Assumptions Can Change the Valuation

Valuation models may look precise, but their outputs can be highly sensitive to key assumptions. Common drivers include:

- Revenue growth: If growth falls short of expectations, enterprise value may decline significantly.
- Profitability: Gross margin, operating costs, the timing of break-even and

market share all affect forecast cash flows.

- Discount rate: This can be viewed as the return market participants require for risk. A higher risk generally means a higher discount rate and a lower present value.
- Recent financing or transaction prices: A recent funding round may provide evidence, but transaction terms, market changes, differences in share rights and representativeness must still be considered.

Example | Illustrative amount

Assume an AI start-up has current revenue of NT\$50 million. A model assuming 50% annual growth over the next five years may produce a much higher value than a model assuming 30% growth. This does not automatically make either figure wrong. It shows why readers should assess whether assumptions are supported by orders, business plans, industry data and actual operating performance.

The Three-Level Fair Value Hierarchy

IFRS 13 establishes a three-level hierarchy based on the observability of valuation inputs. The classification reflects the lowest-level input that is significant to the measurement as a whole.

Level	Plain-language explanation	Common examples
Level 1	Unadjusted quoted prices for identical items in active markets	Listed shares
Level	Observable market data other than Level 1 quoted prices	Yield curves, credit spreads, prices for similar assets
Level	Significant inputs are unobservable and require more estimation	Private equity interests, internal cash flow forecasts

Level 3 does not mean unreliable, and it does not mean the valuation is wrong. It means that the measurement depends more heavily on unobservable inputs and therefore requires stronger valuation processes, governance, support and disclosure.

Why Is a Fair Value Audit Challenging?

For many investment entities, unrealised valuation gains or losses may affect annual profit and net assets. When a valuation involves high uncertainty, complex models or subjective judgments, the risk of material misstatement may also increase.

ISA 540 (Revised) requires auditors to assess and respond to risks relating to accounting estimates and related disclosures. It emphasises estimation uncertainty, complexity, subjectivity and indicators of possible management bias.

What Do Auditors Commonly Do?

- Understand the valuation process and controls, including responsibility, data sources, model approval and review.

- Test methods, data and assumptions, including whether the technique is appropriate and whether growth, margin and discount-rate assumptions are supportable.
- Compare external market information, such as comparable companies, recent transactions, subsequent financing rounds and industry data, while considering comparability.
- Use valuation specialists where models, capital structures or special rights are complex.
- Perform sensitivity analysis to understand whether reasonably possible changes in key assumptions could materially affect the valuation or financial statements.
- Evaluate disclosures about valuation techniques, significant unobservable inputs, hierarchy levels and measurement uncertainty.

What Can Businesses and Investors Do?

For management and finance leaders

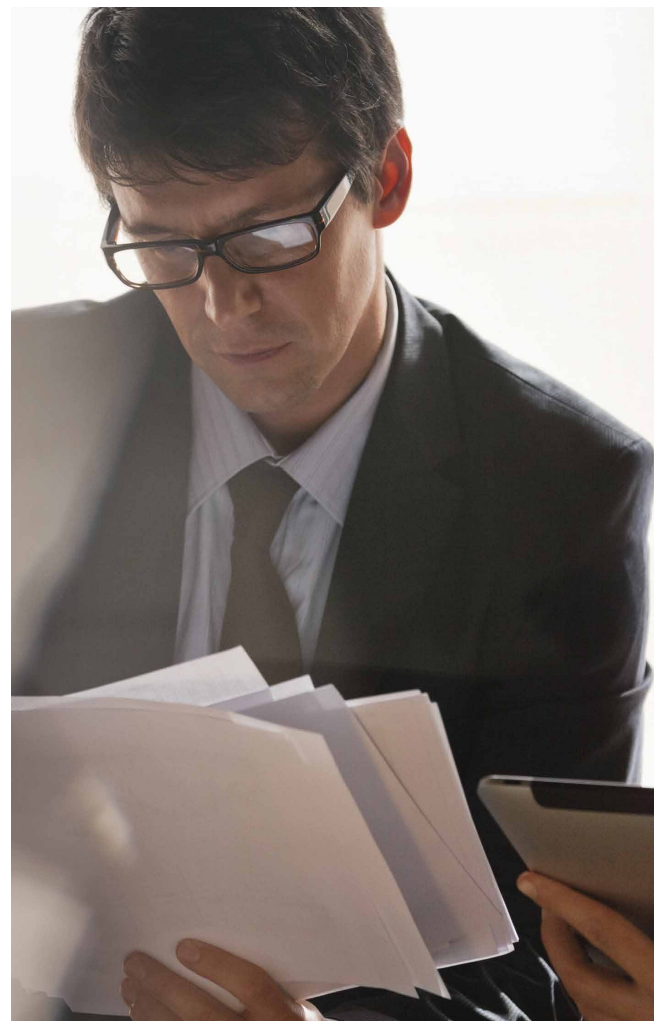
- Establish a formal valuation policy covering frequency, methods, approval levels and documentation.
- Obtain current financial and operating information from investees rather than simply carrying forward the last funding-round price.
- Set reasonable ranges for significant assumptions and perform sensitivity analysis.
- Review the proportion of Level 3 assets, current-period valuation gains or losses and consistency of disclosures.
- Discuss significant transactions and special rights with auditors and valuation specialists early.

For investors

- Look beyond reported profit and identify how much arises from unrealised valuation gains.
- Read the notes on fair value hierarchy, valuation techniques and significant assumptions.
- Consider whether the valuation depends heavily on one assumption and how changes could affect net assets or profit.
- Understand that an unmodified audit opinion addresses whether the financial statements are fairly presented, in all material respects, under the applicable framework. It is not a guarantee of investment value or future performance.

Conclusion

As private equity and venture capital investment becomes more prominent, financial statement amounts increasingly depend on estimates about the future. The purpose of a fair value audit is not to determine one uniquely correct market price. It is to use professional scepticism, evidence and transparent disclosure to assess whether the valuation falls within a reasonable range and to help users understand the uncertainty involved.



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3. Bookkeeping & Tax Compliance

INCORRECT OR DUPLICATE E-INVOICES: VOLUNTARY DISCLOSURE MAY AVOID PENALTIES, BUT BUSINESS REMAIN LIABLE FOR REIMBURSEMENT OF PRIZE MONEY PAID IN ERROR

Executive Summary

The Ministry of Finance, Central Region National Taxation Bureau has reminded businesses that errors in electronic invoice issuance may result in a liability to reimburse prize money paid in error, even where penalty relief is available through voluntary disclosure.

Case Highlight

A retail chain inadvertently reused invoice serial numbers from a previous period due to an error during a POS system upgrade. Although penalty relief was granted following voluntary disclosure, the business remained liable to reimburse prize money paid in error.

Key Implications

1. Voluntary disclosure may qualify for penalty relief.
2. Voluntary disclosure may qualify for penalty relief.
3. Failure to voluntarily disclose may result in additional penalties.

Legal References

Uniform Invoice Prize Regulations Article 15-1, Value-added and Non-value-added Business Tax Act Article 48, and Standards for Reduction or Exemption of Penalties for Tax Violations.

Forvis Mazars Insight

Electronic invoice management has become an integral component of effective tax governance. Businesses are encouraged to regularly review their POS systems and e-invoicing platform configurations and conduct post-implementation testing following system upgrades.

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4. Corporate Secretarial Services

CAPITAL REDUCTION IN TAIWAN: KEY PRINCIPLES AND MINORITY SHAREHOLDER PROTECTION

Overview

Capital reduction is a legitimate corporate action commonly used by companies to address accumulated losses, improve financial health, or optimize their capital structure. While Taiwan's Company Act permits companies to reduce capital through shareholder approval, recent court decisions have emphasized that such measures must not be used as a mechanism to unfairly eliminate minority shareholders.

A notable Taiwan High Court decision has clarified the boundaries between lawful capital restructuring and abusive corporate actions, reinforcing the importance of shareholder equality and minority shareholder protection.

Understanding Capital Reduction

Under Article 168 of the Taiwan Company Act, a company may not reduce its capital without a resolution adopted by the shareholders' meeting. As a general principle, any capital reduction should be implemented proportionately among shareholders according to their shareholdings, thereby preserving equal treatment among shareholders.

In practice, common forms of capital reduction include:

1. Capital Reduction to Offset Losses

A company reduces its stated capital to eliminate accumulated losses and improve its balance sheet position. This approach is frequently adopted by companies undergoing financial restructuring.

2. Capital Reduction with Return of Capital

A portion of the company's capital is returned to shareholders, effectively distributing excess capital that is no longer required for business operations.

3. Share Cancellation

The number of shares held by each shareholder is reduced according to the approved capital reduction ratio.

Accordingly, capital reduction itself is not unusual and is a legally recognized corporate action. However, the process must be structured carefully to ensure that it does not unfairly prejudice particular shareholders.

Court Ruling: Capital Reduction Cannot Be Used to Eliminate Minority Shareholders

A recent judgment by the Taiwan High Court (Civil Judgment No. 355, 2022) illustrates how a capital reduction may be deemed invalid when it effectively serves as a tool to remove minority shareholders.

Background

The company involved in the case had a paid-in capital of approximately NT\$700 million, with its controlling shareholder holding approximately 60.41% of the issued shares.

In 2017, the shareholders approved a drastic capital reduction that reduced the company's capital from NT\$700 million to only NT\$10. Following the capital reduction, the company conducted a cash capital increase of NT\$900 million.

As a result of the extreme reduction, the shares held by existing shareholders

became fractional shares. Furthermore, the capital increase plan authorized the chairman to arrange subscriptions by designated investors for any unsubscribed shares.

Ultimately, among the company's original 28 shareholders, only the controlling shareholder remained a shareholder after the restructuring. The minority shareholders effectively lost both their equity interests and voting rights.

The Court's Analysis

The company argued that the capital reduction was necessary to offset losses and improve its financial condition.

The court, however, took a broader view and considered whether the chosen restructuring method was proportionate and necessary.

According to the court, even if financial restructuring was a legitimate objective, the company failed to demonstrate why less harmful alternatives could not have achieved the same purpose. By reducing the capital from NT\$700 million to merely NT\$10, the company effectively stripped minority shareholders of their shareholder status while enabling the controlling shareholder to obtain complete control over the company.

The court concluded that the transaction was not merely a financial restructuring exercise. Instead, it had the practical effect

of using majority voting power to eliminate minority shareholders.

As a result, the court held that:

- The capital reduction violated the principle of shareholder equality.
- The transaction constituted an abuse of shareholder rights.
- The shareholders' resolution was invalid pursuant to Article 148 of the Civil Code and Article 191 of the Company Act.

Key Takeaways for Companies and Investors

This case serves as an important reminder that corporate restructuring measures must be assessed not only from a financial perspective but also from a corporate governance and shareholder protection standpoint.

When implementing a capital reduction, companies should carefully evaluate the impact on shareholder rights and ensure that the restructuring is both necessary and proportionate.

Key considerations include:

- **Maintain Equal Treatment of Shareholders**

Capital reductions should, as a general rule, be conducted on a pro rata basis. Companies should avoid arrangements that result in unjustified disparities among shareholders.

- **Legitimate Business Purpose Is Not Sufficient by Itself**

Even where a capital reduction is intended to offset losses or improve the company's financial position, the restructuring may still be challenged if the chosen mechanism disproportionately harms minority shareholders.

- **Assess Whether Minority Shareholders May Be Forced Out**

Where a capital reduction could effectively result in minority shareholders losing their shareholder status, companies should carefully consider whether alternative structures are available and whether the proposed measure can be justified as necessary and proportionate.

- **Consider Corporate Governance Risks**

Transactions that have the effect of concentrating ownership, enhancing the control of a dominant shareholder, or conferring disproportionate benefits on specific shareholders are likely to attract heightened judicial scrutiny.

Conclusion

The Taiwan High Court's decision reinforces a fundamental corporate governance principle: corporate restructuring measures must not be used as a means of circumventing minority shareholder protections.

Although capital reduction remains an important tool for financial restructuring, companies should ensure that such actions are supported by legitimate business objectives, implemented fairly among shareholders, and designed in a manner that respects the principles of shareholder equality and good faith.

For boards of directors, management teams, and investors, the case highlights the need to evaluate not only the financial rationale of a capital restructuring, but also its broader legal and governance implications.

Suggested Article Title Alternatives

1. Taiwan Court Reinforces Minority Shareholder Protection in Capital Reduction Case
2. When Capital Reduction Goes Too Far: Lessons from a Taiwan High Court Decision
3. Capital Reduction and Shareholder Equality: Key Takeaways from Recent Taiwan Case Law
4. Corporate Restructuring vs. Minority Shareholder Rights: Insights from Taiwan's Courts
5. Navigating Capital Reduction Transactions: Legal Considerations for Companies and Investors in Taiwan

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