



Overview to Setting Up a Company in Taiwan for Foreigners

Overview

Why Taiwan?

01

02

Options

- I. Using a host company to house staff
- II. Setting up a subsidiary, a branch office, or a representative office

Setting Up an Office

Preparing for
Payroll & Tax

Anticipating Other
Operational Issues

Recruiting
Staff

Managing
Staff

Appendix



Why Taiwan?



Why Taiwan?

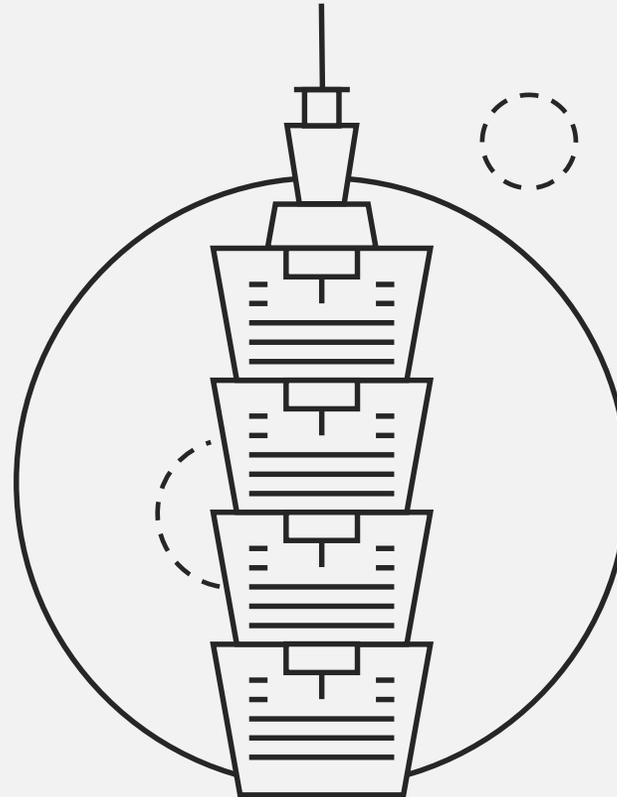
Sizable Technical Talent Pool

Carryover from

- a) PC/semiconductor/mobile industry
- b) long history of US-educated professionals and academics dating back to 1960's
- c) strong pool of engineering and technical schools

Overseas-Trained Workforce

Large pool of professionals with overseas schooling—1) US 2) UK 3) Canada 4) Australia & 5) Japan



Low Costs

Engineers, although well-paid by Taiwan standards, are still inexpensive when judged by global standards

Stable Society & Ethical Workforce

Taiwan is an open & liberal democracy with clear rule of law

Foreign Investment

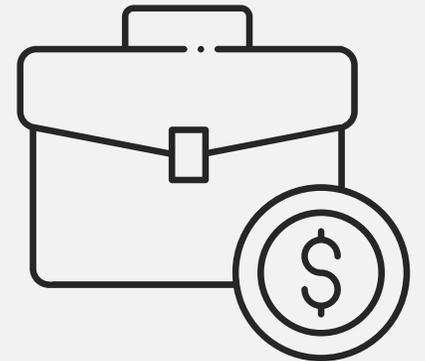
Foreign companies can invest without restriction (save a few sensitive industries) and have 100% wholly-owned subsidiaries

Government Funding

The Taiwanese government is eager to help entrepreneurs start their businesses.

Various national and regional loans, prizes and grants are available from different departments.

Government Funding Resources





Options



Recommended Option for Staff < 5

For teams with 5 people or less, it is generally more economical to use a host company to handle compliance and payroll

Headhunters, accounting firms, and other service providers can be the host vehicle/company.

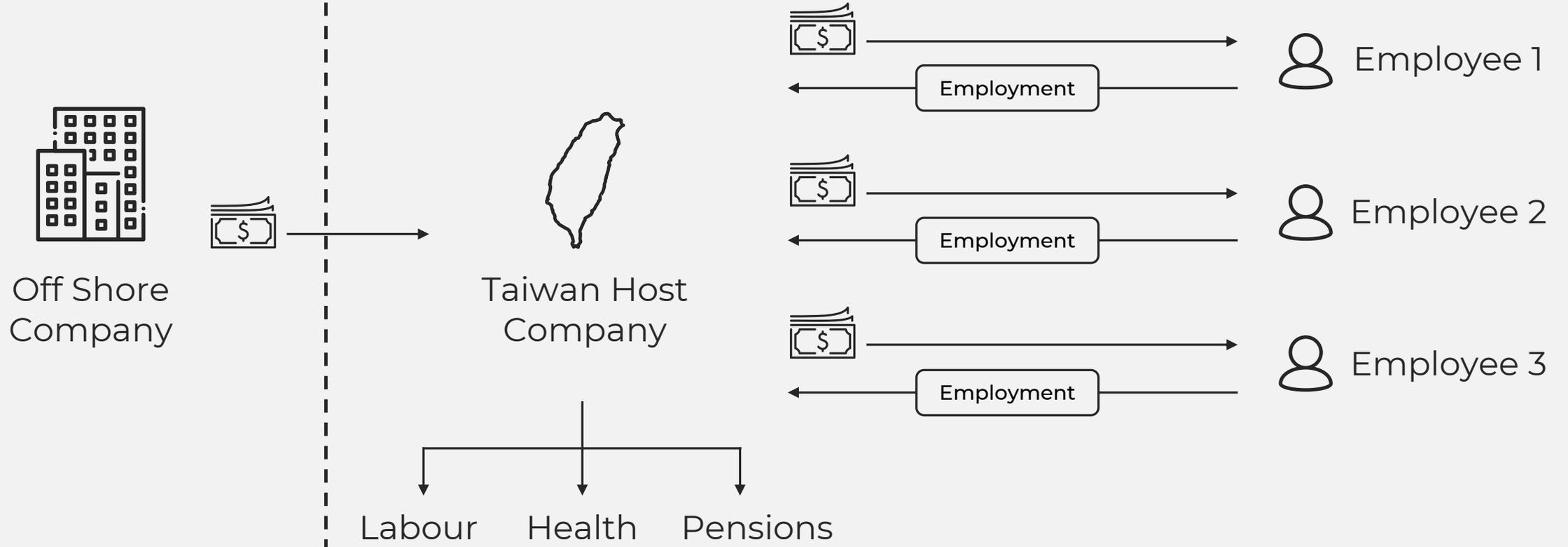


ADVANTAGES

Can hire immediately

Gives Taiwanese employees assurance their labor rights are protected in accordance with Taiwan labor law

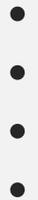
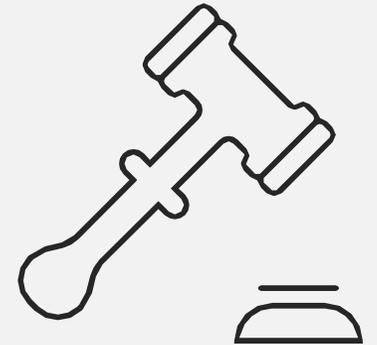
Recommended Option for Staff < 5



Legal and Admin

Manpower or Professional Employer Organizations (PEOs)

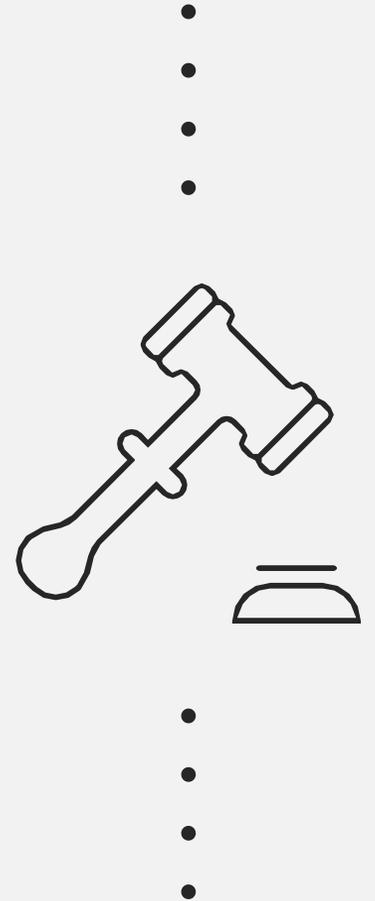
- This usually involves paying some manner of administrative fee for someone to do this service for you.
- Payroll tax will range from 10 to 20%, depending on your pay scale. At the lower end of the pay scale (NTD 24,000 to 45,000), payroll tax will be 20%. As you move progressively higher, it will move closer to 10% and eventually just 6%.
- PEOs will charge a service fee. Common practice is to charge a % of salary though we believe it is fairer to operate on a fixed fee.
- Makes sense for a team of 4-5 people or fewer. However, beyond a small team, it probably makes more economical sense to just set-up your own entity in Taiwan as all service fees require a 5% levy on VAT.



Legal and Admin

Own Entities

- Key legal consideration here is branch vs. subsidiary vs. representative office
 - Issues of double taxation, liability exposure to parent/investing company, and qualification for subsidies/grants.
- All three types of own-entity require a “responsible person” who acts on behalf of the company (see next slide).
- Administratively, procedures for a subsidiary and a branch are much the same, and (as opposed to a pass-through vehicle) this approach makes sense for teams of 5 or more. Representative office is simpler from a compliance perspective, but the drawback is that this set-up does not allow you to take in revenue in Taiwan.
- Bottom line: conservatively plan on overhead of 15,000 to 18,000 USD per year to maintain an entity in Taiwan if you do it in-house.

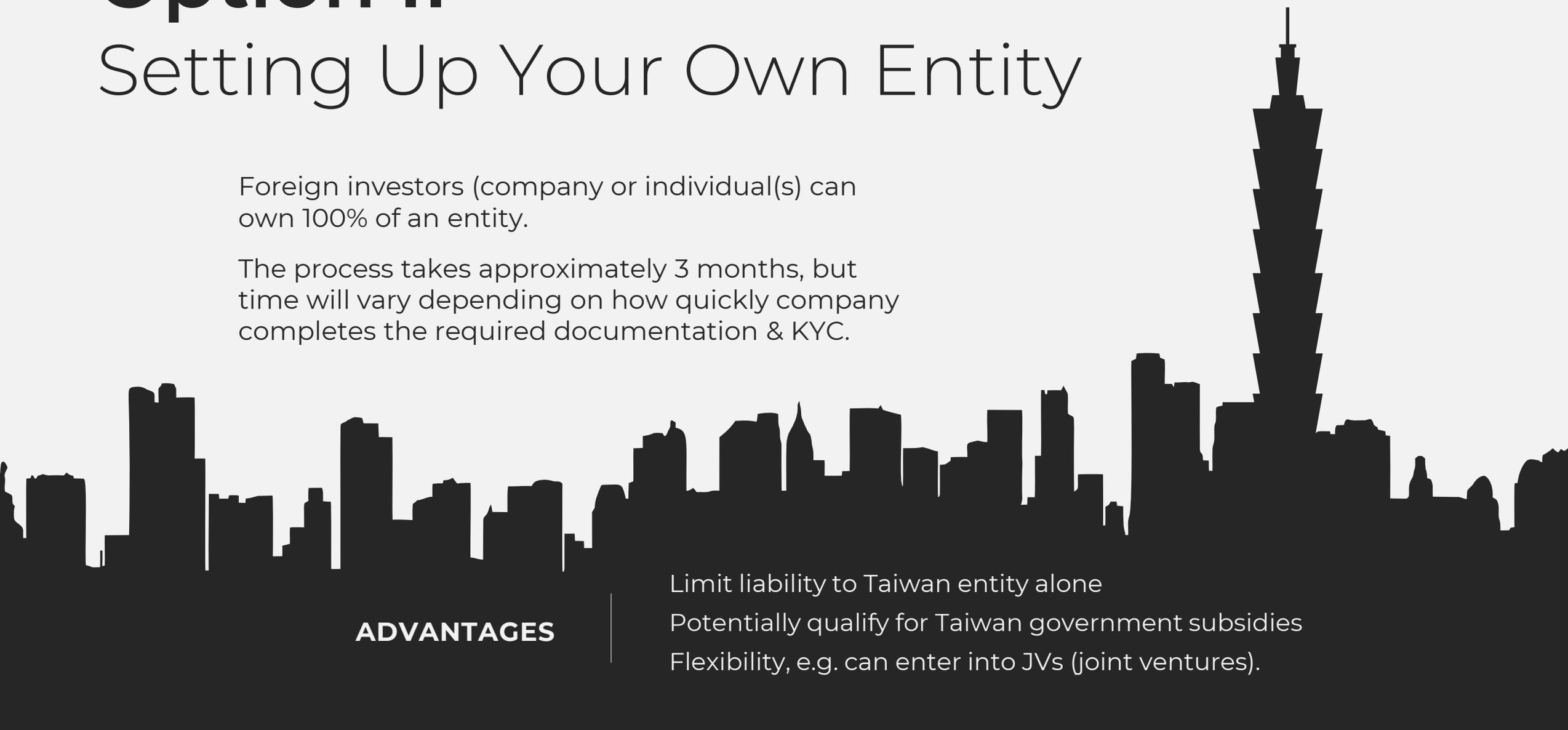


Option II

Setting Up Your Own Entity

Foreign investors (company or individual(s) can own 100% of an entity.

The process takes approximately 3 months, but time will vary depending on how quickly company completes the required documentation & KYC.



ADVANTAGES

Limit liability to Taiwan entity alone

Potentially qualify for Taiwan government subsidies

Flexibility, e.g. can enter into JVs (joint ventures).

Option II

Setting Up Your Own Entity

Recommended set-up:



NTD \$500,000
(~ USD 18,000)

Minimum Paid-in capital

This would enable the company to issue work visas to the foreign responsible person.



NTD \$5,000,000
(~ USD 180,000)

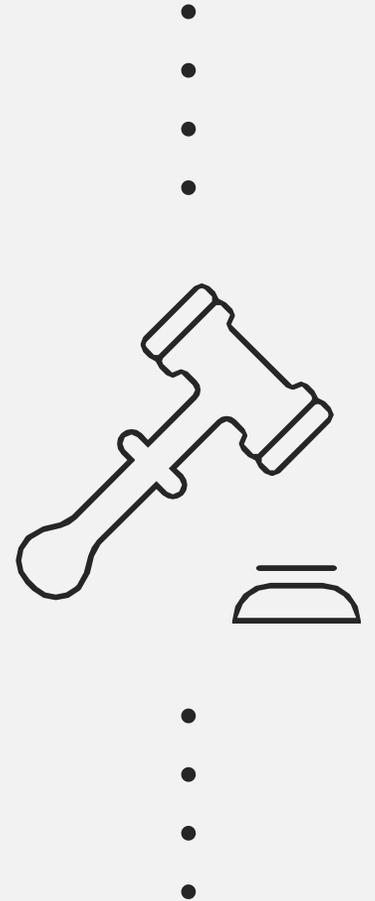
Minimum Paid-in capital

This is in order to issue visas to employees

Legal and Admin

Responsible Person

- This could be a director, branch manager, major investor, or other senior person involved in the company; some thought needs to go into who this person will be.
- He or she needs to be present to do a variety of functions on behalf of the company, e.g., open a bank account, retrieve a lost password, etc..
- This person also bears legal liability for the business, in a way that differs from usual concepts of “limited liability.”
- In particular, the responsible person is who the government goes after in case taxes are owed (primarily payroll taxes and pension payments in the case of a start-up).



Branch & Subsidiary in Taiwan

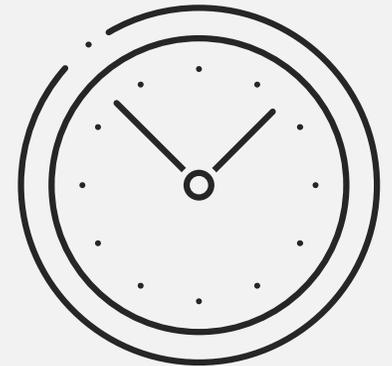
Comparison Chart

| Structure | Representative Office 辦事處 | Branch Office of Foreign Company 分公司 | Subsidiary 子公司 | |
|--|---------------------------|--------------------------------------|------------------------------|----------------------------------|
| | | | Limited Company 有限公司 | Company Limited by Shares 股份有限公司 |
| Responsible Person 負責人 | Required | Required | Required | |
| MOEAIC 投審會 Approval | Required | Required | Required | |
| Requirement for Local Directors | No | No | No | |
| Requirement for Registered Office | Yes | Yes | Yes | |
| Minimum Authorized Capital 法定資本額 | N/A | N/A | N/A | |
| Requirement for Income Tax Return 所得稅申報表 | Annual Filing | Yes | Yes | |
| Company Income Tax 所得稅 | N/A | 20% | 20% | |
| Dividend Distribution Tax 股利稅 | N/A | None | 20% Foreign with holding tax | |
| Duration of Set Up Procedures* | 4-6 weeks | 8-12 weeks | 8-12 weeks | |
| Independent Entity | No | No | Yes | |
| Legal Liability | Sits with Parent | Sits with Parent | Sits with local entity | |

*Assumption: No PRC shareholders. Hong Kong companies/shareholders may also experience delays.

Time Required to Set Up in Taiwan

- Regardless of your chosen setup—whether a rep office, branch, or subsidiary—you can generally expect a minimum 6-12 week timeframe to process your respective application.
- This reflects the government side of the process: straightforward, but not very flexible. The overall process likely will be longer, however, due to time necessary to fulfill all the documentation requirements.
- Once the legal entity is set up, expect some additional time to actually open a bank account, handle admin issues, etc., as well as recruiting.





Setting Up an **Office**

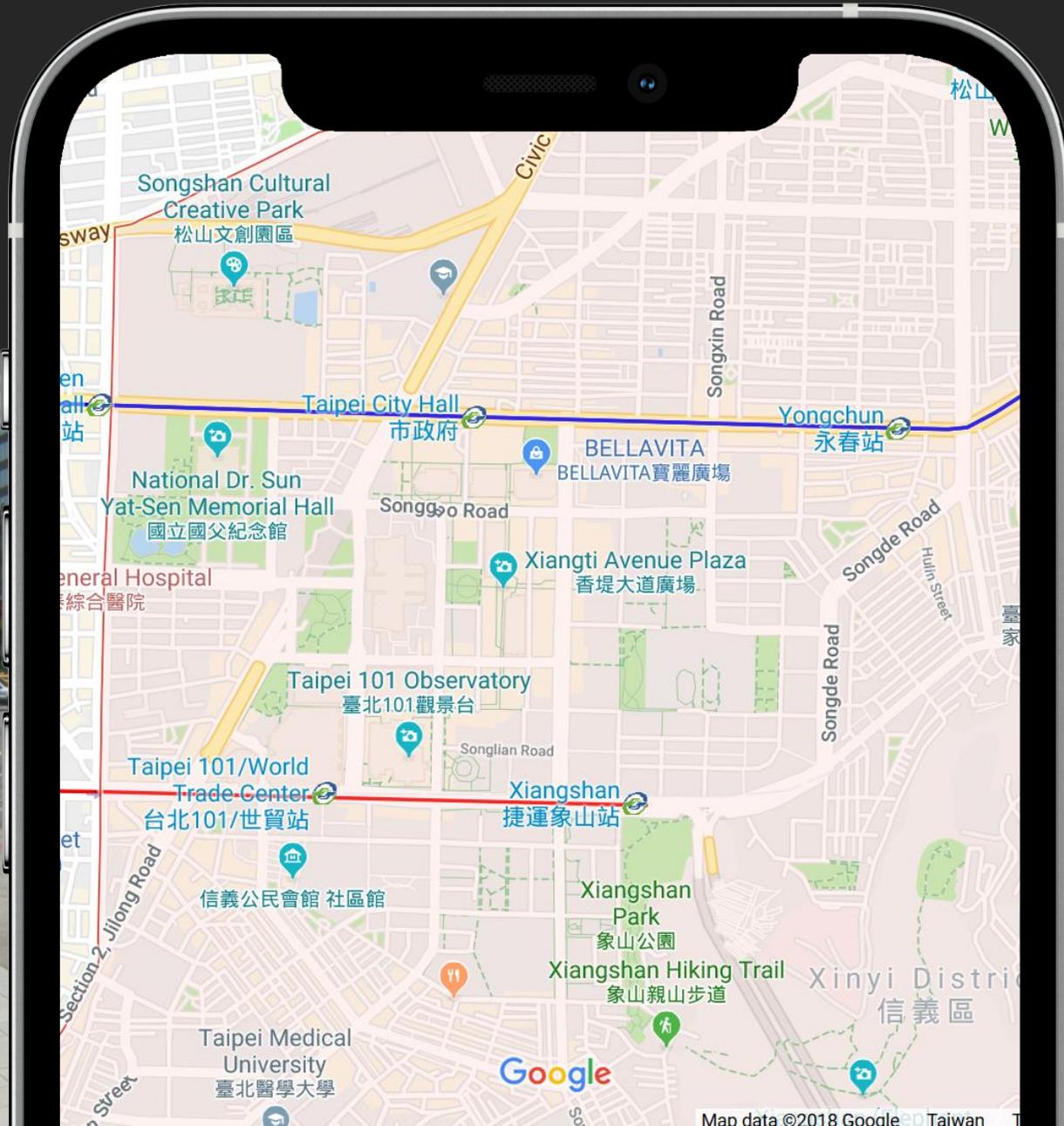


Office Space

Selecting a Location

- There is a wide range of options in Taipei, with costs governed by district and building grade. Most expensive: Da'an and Xinyi Districts. Best locations are Taipei's east side and anywhere along the MRT (subway) lines.
- Regarding space, get used to thinking in terms of "pings" (~3.3 sq-m or 35.6 sq-ft). Your needs for space depends on whether you are operating on an American notion of space per staff or a Taiwanese one. For example, a single office worker may fundamentally require about 6 pings of usable office space (~225 sq-ft) but many Taiwanese companies operate on less than 1.7 pings per staff.
- HOWEVER, you must budget for more than "usable" space, since listings (and rent) include both the actual area and the "common" area (such as balconies and stairwells).
- The common area can range between 20% for an older building to 45% for a modern building. If you need 100 pings of actual workspace, you may need to rent a 200 ping office to achieve that much usable space.

Taipei's Xinyi District



Taipei's Da'an District



Taipei's Mass Rapid Transit (MRT) System



Office Space

Selecting a Location (Cont'd)

- Start by narrowing down a neighborhood, in accordance with your budget. Usually for commercial real estate, there are listing agents already.
- Most listings are not exclusive so there are multiple agents working on the property. The agent you ultimately choose to do the transaction with will charge 0.5 months to both leaser and renter.
- If you retain your own agent, you'd need to pay on top of the listing agent(s), which could be another month or so in commissions.
- Alternatively, you can save commission costs (equivalent to up to one admin headcount's annual salary) by having someone internal do the legwork or by hiring the office manager first.
- The ideal situation would be to be able to find a landlord who is running the lease process him or herself.
- Agents and listings can be found on sites like www.591.com.tw

Office Space

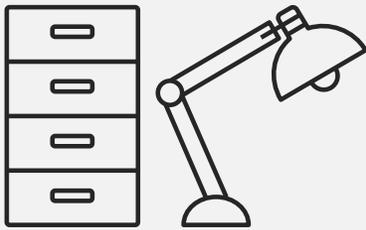
Rent

- Grade A buildings around the Xinyi district (such as Taipei 101) will run between 2,400 to 3,000 NTD per ping. Grade B and Grade C should be between 1,000 to 2,000 NTD per ping.
- In addition to the rental, the tenant is customarily responsible for the monthly building fees, utilities and water. You should budget in 300 NTD per ping per month for these additional costs.
- Standard deposit policy is 2 months + first month's rent. Break-up fee is to be negotiated but standard practice is usually 1 month, though some landlords may negotiate stricter terms.
- Many Taiwanese landlords prefer and sometimes insist on receiving a year's worth of post-dated checks.



Office Space

Other Issues



Fitting out the office

In Taiwan, standard practice is that landlords will rent out offices as is. Tenants will normally fit out the office as they see fit. What tenants should try to negotiate for is to also return the office as is, otherwise there will be additional tear down costs when you vacate the office.



Taxes

In the course of your negotiation with the landlord, be sure to spell out who is responsible for the tax withholding, which is 10%. Also, if your landlord is an individual, there is also an additional 2% health insurance tax. Be sure to also spell out in black and white terms who is liable for that payment.



Preparing for **Payroll & Tax**

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Tax Overview

20%

Flat corporate tax

5%

VAT

20%

Payroll tax deductions
usually around 20% of gross
income (see next slide)

21%

Dividend distribution tax
(subsidiary only)

Payroll Taxes

National Health Insurance (NHI)

Applicable to all employees. Company pays 60% of employee's annual premium (worker pays 30% and government 10%) For private enterprise employees, premiums are calculated as: [Salary Basis x insurance premium rate x contribution ratio x(1 + number of dependents)]

NHI additional premiums

A 2% supplementary premium for the part of the accumulated value of cash awards so far in the year exceeding four times the insured amount for the month. (This is basically akin to an alternative minimum tax above a certain bonus threshold.)

Labor insurance

Starting from 5 employees. Ordinary insurance premium rate is between 7.5% and 13%.

Pension

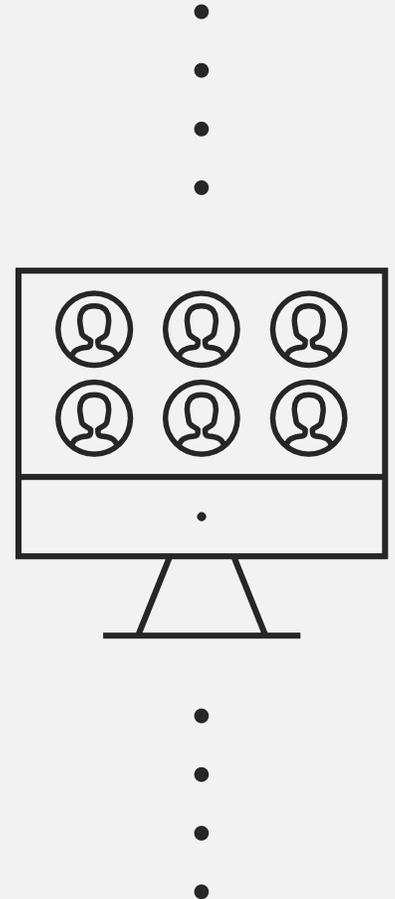
All employers required to deposit 6%+ of a worker's monthly wages into an individual labor pension account managed by the Bureau of Labor Insurance.

Availability of Payroll Systems

There are no third-party payroll services, and internally a firm's payroll software and systems tend to be integrated into its overall accounting functions.

On the other hand, a local bank can fulfill some aspects of the actual payroll distribution, so long as all employees have accounts at that particular bank. Along the way, the government deducts withholdings directly from the employee's salary payment.

In order to ensure the correct amount is deducted, an entity must have a person dedicated to updating and monitoring employee records with the tax, labor, pension, and national health insurance authorities.



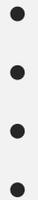
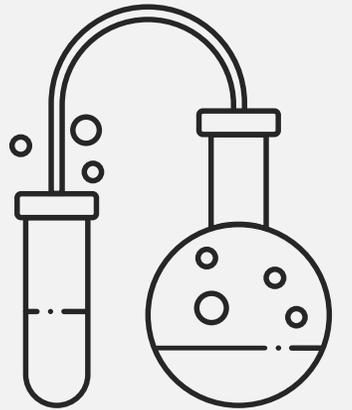


Anticipating Other Operational Issues

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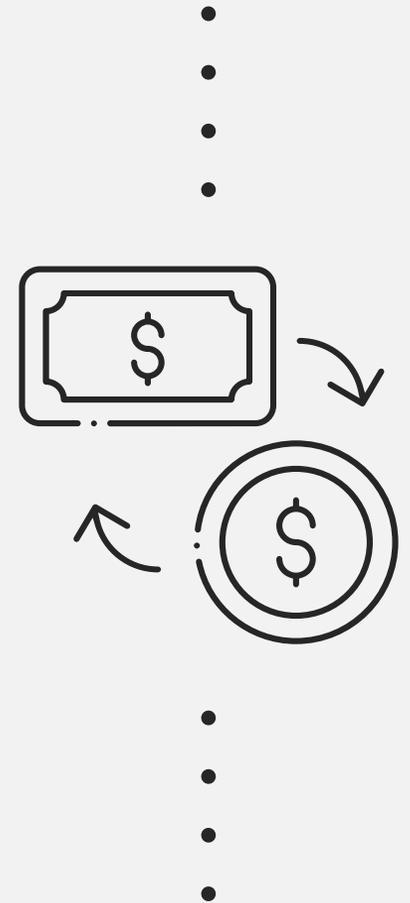
Availability of R&D Incentives

- Investors may receive low-interest loans for participating in industrial R&D and industry revitalization programs. Research and development tax credits, equivalent to 15 percent of total R&D expenditures, are available only to companies incorporated in Taiwan.
- As for subsidies, theoretically these are available to subsidiaries, but it's an ever-shifting environment and cost-benefit analysis is needed.
- Typically come in the form of reimbursements that must be applied for monthly; cash flow and administrative costs are factors.
- Amounts are commensurate with company size (paid-in capital), and only cover a portion of costs.



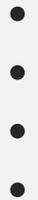
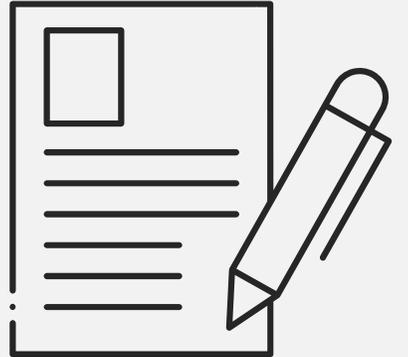
Foreign Exchange and Remittance

- There are relatively few restrictions in Taiwan on converting or transferring direct investment funds. Foreign investors with approved investments can readily obtain foreign exchange from foreign exchange-designated banks.
- For remittances, no prior approval is required if the cumulative amount of inward or outward remittances does not exceed the annual limit of 5 million USD for an individual or 50 million USD for a corporate entity.



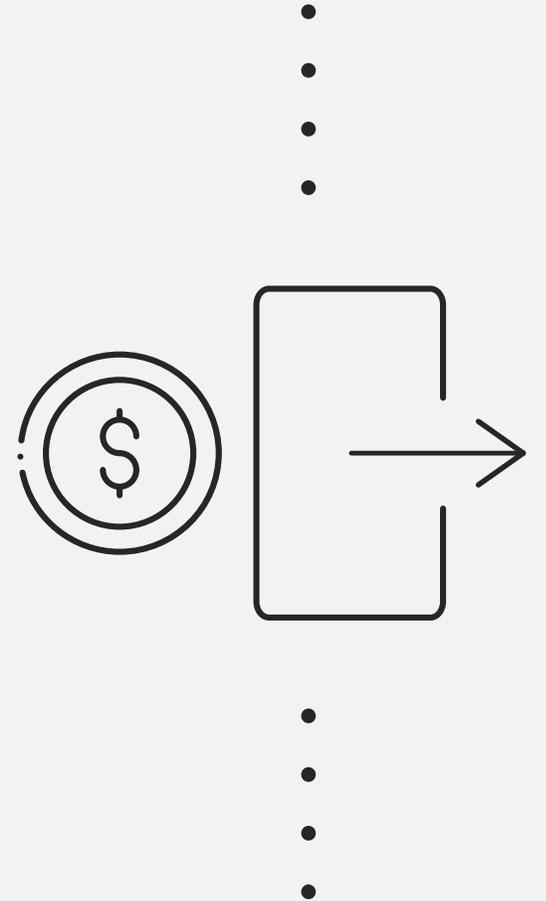
Contracts and Dispute Settlement

- Taiwan resolves disputes according to its domestic laws and based on national treatment or investment guarantee agreements. Taiwan's Civil Code provides the basis for enforcing contracts.
- Parties in a dispute may pursue mediation by a court, by a mediation committee of a town or city, and by the Public Procurement Commission. Mediation is generally nonbinding unless parties agree otherwise. Civil mediation approved by a court has the same power as a binding ruling under civil litigation.
- The Compulsory Enforcement Act provides a legal basis for enforcing the ownership of property. Taiwan does not have distinct commercial or contract law.
- Taiwan has comprehensive commercial laws, including the Company Law, Commercial Registration Law, Business Registration Law, and Commercial Accounting Law, as well as laws governing specific industries.



Exit Costs and Process

- Administrative costs are minimal; primary costs and obligations are connected to adherence to labor law requirements (See Appendix 1) and any contracted lease considerations (such as recovering deposits).
- Remember that the business shall have an appointed “responsible person” or guarantor, who is responsible for any outstanding obligations. Government debts cannot be discharged.





Recruiting **Staff**



Recruitment Considerations

- Local professional workforce has a high level of integrity; balanced by valuing job security and “brand name” of their employer.
- Non-monetary considerations in recruiting include company reputation, word-of-mouth, and “face” issues before one’s family, friends, and (especially) spouse or potential spouse.
- As a result, recruiting top talent is not as simple as paying above market; and stock options and other startup-oriented incentives aren’t as persuasive.
- Recruiters and headhunting are not well-developed approaches; guanxi (connections), favorable word of mouth, and first-page Google rankings count for much more.



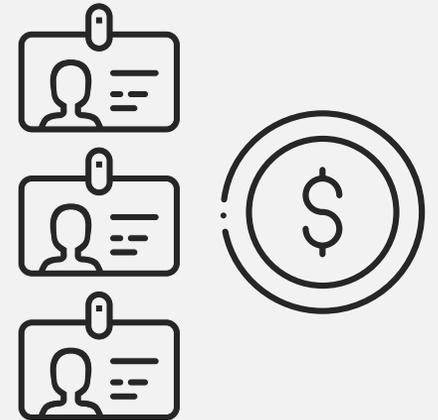
Recruitment Considerations (Cont'd)

- Once on board, there are a range of straightforward administrative requirements as well as discussions that should be held in respect to schedule, overtime expectations, policy for bonuses and so on. A formal contract is expected for every new hire.
- Annual bonuses are expected to be paid every year before the Lunar New Year holiday, traditionally equal to two months' regular salary.
- Firing or laying off employees likewise have administrative procedures, including a notification period and severance pay governed by length of employment. (See Appendix 1.)



Internship Programs and Costs

- Taiwan generally does not allow for unpaid internships; expect to pay at least minimum wage, currently NTD 160 per hour or 5.75 USD/hour.
- Formal internship programs are not as common as in the West, but there are many students and new grads who are willing to work at lower rates in exchange for experience.
- That being said, more competitive job categories like programmers are less willing to consider, given the portability of their skills.
- From the employee's perspective, an internship is not necessarily looked at as a route to longer-term employment; don't expect to have dibs on an attractive employee after graduation.



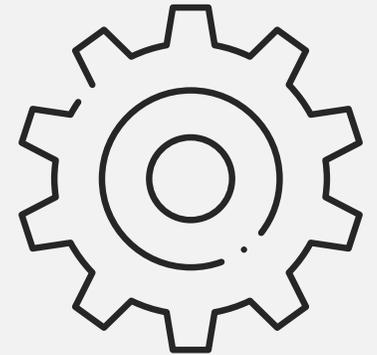


Managing **Staff**



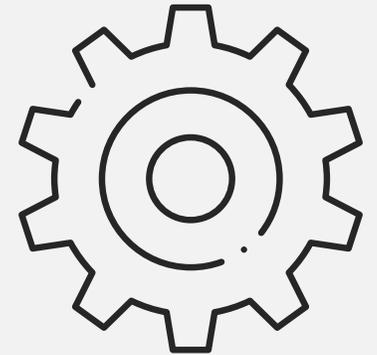
Management Considerations

- **Communication style:** The most frequently-heard management complaints tend to arise from differing communication styles. For one thing, Taiwanese workers prefer to avoid confrontation: think more in terms of Japanese staff and not so much Hong Kongers or Mainland Chinese.
- A foreign manager may feel that key personnel won't give them straight answers and are afraid to say "no;" whereas employees may feel frustrated that the manager is not picking up on (to them) very obvious hints of their real feelings and assessments.
- A communal approach is often helpful: take your employees out for lunch, allow for the occasional office celebration, and pay attention to talk around the water cooler.



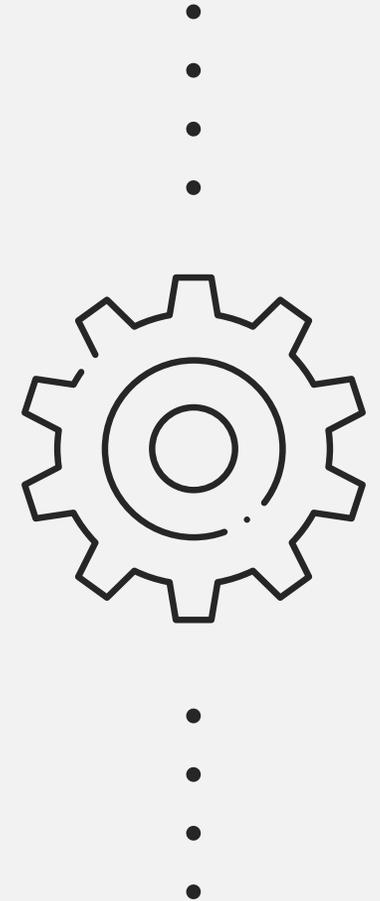
Management Considerations (Cont'd)

- **No flat organizations:** On the other hand, managers must keep in mind that Taiwanese are used to a hierarchical organization and may even look to supervisors to play a quasi-parental role. It's not really possible for a manager to be "one of the boys," and being too casual may have a negative impact on morale and therefore productivity.
- **Avoid *chabuduo* mindsets:** While Taiwanese workers have generally strong integrity and values, there is also a tendency to settle for minimally acceptable work. In Mandarin, this is expressed as *chabuduo* (差不多), meaning approximately: "eh, that's probably good enough."



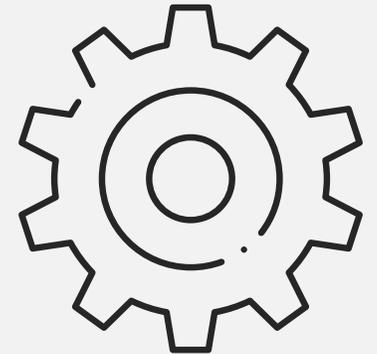
Management Considerations (Cont'd)

- **Fear of being put on the spot:** It's sometimes difficult to get workers to show initiative, or to go along with an untested plan if there's no clear person in charge (or other person who'll be blamed if things go pear-shaped). Even when encouraged to run free with their ideas, experience at school and with parents might cause workers to be wary of a trap.
- **Remember they're young (not only in terms of the calendar):** Young adults tend to be late bloomers in Taiwan, and it's not at all unusual for both men and women to live at home with their parents through their early thirties. They may still be easily influenced by family members in attitudes and decisions, including the prospect of switching jobs.



Management Considerations (Cont'd)

- **Earn respect and overcome distrust:** In one manager's experience, at least, all of the above points imply a balancing act. A manager must be engaged and involved with employees on a somewhat more personal level than might be typical in Western countries. (Expect to be invited to an employee's wedding at some point.)
- At the same time, he or she must remember that employees are looking to the manager to set expectations and play a certain role. Employees welcome the prospect of meeting challenges, while feeling careful not to be tricked into losing face or taking blame.
- Diligent young employees probably respond best to managers who remind them of their favorite teachers at school: tough but fair.



Appendix 1:

Employer Obligations

Employer Obligations: Employee Leave

Annual leave shall be granted according to tenure with the company:

| Tenure | Days of Annual Leave |
|--|---|
| Over 6 months but less than 1 year | 3 days |
| Over 1 year but less than 2 years | 7 days |
| More than 2 years but less than 3 years | 10 days |
| More than 3 years but less than 5 years | 14 days |
| More than 5 years but less than 10 years | 15 days |
| More than 10 years | One day to be added for each additional year, up to 30 days |

Additional forms of leave: sick leave, leaves of absence, bereavement, maternity leave, marriage leave, maternity leave, pregnancy checkups, and paternity leave.

Employer Obligations: Termination (1)

- A company may terminate employees based on specific reasons such as business suspension or transfer, losses, changes in the business, or unsatisfactory job performance.
- When terminating an employee contract, the company must give notice beforehand according to the employee's tenure. During the notification period, the company shall provide the employee with up to two days of paid leave per week for the purpose of job hunting.

| Tenure | Duration of Notice |
|--|---------------------------|
| Over three months but less than one year | 10 days |
| Over one year but less than three years | 20 days |
| Over three years | 30 days |

Employer Obligations: Termination (2)

- Unused annual leave at time of termination shall be converted to salary.
- Severance pay shall be issued equivalent to a half month's salary for each full year of service; for employment periods of less than one year, severance pay shall be issued proportionally.
- Ten days before the employee termination date, an employment termination notice must be given to the Department of Labor and to the Employment Services Office.
- An Employment Separation Certificate shall be issued to the employee.
- On the day of termination, the employee's Labor Insurance, Health Insurance, and Labor Pension contributions shall be discontinued.

Appendix 2:

Salary Comparison

Salary Comparison

Taiwan Engineering Salaries: Typical Base + Bonus Structure

| Years of Experience | Monthly Base Rate (USD) | Guaranteed Bonus (Months) | Annual Salary w/Bonus (USD) |
|---------------------|-------------------------|---------------------------|-----------------------------|
| 0 - 2 years | 1,500 - 1,800 | 2 | 21K - 25K |
| 2 - 5 years | 1,800 - 2,200 | 3 | 27K - 33K |
| 5+ years | 2,200+ | 4 | 35K + |

Average Annual Salaries by Country (USD)

| | Taiwan | New Zealand | Australia | US |
|--------------------------|--------|-------------|-----------|---------|
| Software Engineer | 24,745 | 46,544 | 56,690 | 280,825 |
| Senior Software Engineer | 39,112 | 63,788 | 75,518 | 107,600 |
| Electrical Engineer | 20,148 | 46,480 | 56,727 | 72,602 |
| Design Engineer | 26,378 | 40,546 | 55,031 | 65,007 |
| Project Engineer | 39,269 | 50,583 | 62,157 | 66,224 |
| Mechanical Engineer | 25,763 | 44,484 | 54,442 | 68,268 |
| Process Engineer | 23,611 | 48,283 | 61,205 | 71,284 |

Source: www.payscale.com

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