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TAX UPDATES

JAPAN-TAIWAN TAX AGREEMENT – SIGNED

On 26 November 2015, the Interchange Association (Japanese side) and the Association of East Asian Relations (Taiwanese side) signed the 'Agreement between the Interchange Association and the Association of East Asian Relations for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income' (Tax Agreement).

Japan has maintained its relationship with Taiwan on the basis of non-governmental, working-level relations through the Interchange Association and the Association of East Asian Relations. This is the reason that the Tax Agreement was signed by the two associations. It is confirmed in the Tax Agreement that the two associations shall cooperate with each other to obtain necessary consent of the authorities concerned of the respective Territories with a view to carrying out the matters contained in the Tax Agreement.

This Tax Agreement is the first agreement regarding taxes between Japan and Taiwan.

We have set out below the main points of the Tax Agreement.

1. Reduction in Tax Rates on Investment Income in the Source Territory

Tax rates on dividends, interest and royalties in the source territory will be reduced as follows:

Dividends	Interest	Royalties
10%	10%	10%

Note that interest arising in a Territory is exempt from tax in the Territory for certain cases such as where the interest is beneficially owned by the administrative authority of the other Territory, the central bank of the other Territory or any financial institution which aims at promoting exports and is wholly owned by the administrative authority of the other Territory.

2. Business Profits

Where an enterprise which is a resident of a Territory establishes a permanent establishment (e.g. branch) in the other Territory, business profits resulting from the business activities carried out through the permanent establishment will be subject to tax in the other Territory.

3. International Transportation

Profits from the operation of ships or aircraft in international traffic carried on by an enterprise of a Territory shall be taxable only in that Territory.

4. Capital Gains

Where a company which is a resident of a Territory sells shares in its subsidiary which is a resident of the other Territory, capital gains from the alienation will not be subject to tax in the other Territory unless that subsidiary is a company deriving at least 50 percent of the value of its property directly or indirectly from immovable property situated in the other Territory.

5. Dependent Personal Services

Under the short-term visitor exemption clause, remuneration derived by a resident of a Territory in respect of employment exercised in the other Territory will be exempt from tax in the other Territory if the recipient is present in the other Territory for a period or periods not exceeding in the aggregate 183 days in any 12 month period commencing or ending in the calendar year and certain other conditions are met.

6. Other

The following provisions are included in the Tax Agreement:

- Anti-treaty shopping provision (Principal Purposes Test)
- Provision for mutual agreement procedure
- Provision for exchange of information

7. Entry into Force

The Interchange Association and the Association of East Asian Relations shall notify each other in writing about the completion of the procedures required for the entry into force of this Tax Agreement in their respective Territories. The Tax Agreement shall enter into force on the date on which the later of these written notifications is received.

The Tax Agreement shall have effect as follows:

In the case of Japan:

Taxes levied on the basis of a taxable year	Taxes for any taxable years beginning on or after 1 January of the calendar year next following the year in which the Agreement enters into force
Taxes not levied on the basis of a taxable year	Taxes levied on or after 1 January of the calendar year next following the year in which the Agreement enters into force
Provision for exchange of information	Information that relates to taxes for taxable years beginning, or taxes levied, on or after 1 January of the calendar year next following the year in which the Agreement enters into force

In the case of Taiwan:

Taxes withheld at source	Income payable on or after 1 January of the calendar year next following the year in which the Agreement enters into force
Taxes on income which are not withheld at source	Income for any taxable year beginning on or after 1 January of the calendar year next following the year in which the Agreement enters into force
Provision for exchange of information	Information that relates to taxes for taxable years beginning, or taxes levied, on or after 1 January of the calendar year next following the year in which the Agreement enters into force

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